The MAGAZINE of WALL STREET
and BUSINESS ANALYST

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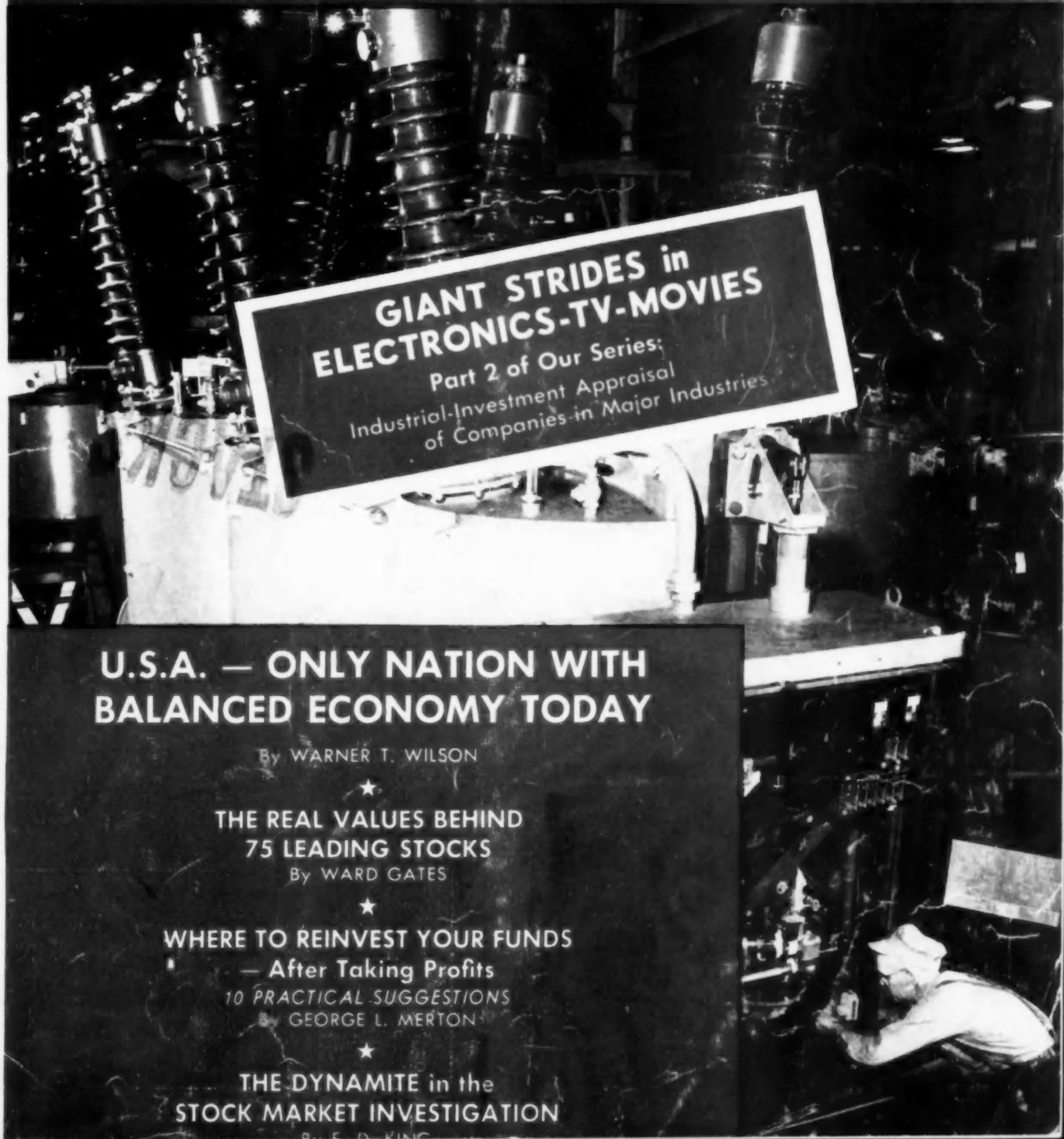

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By E. D. KING

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and BUSINESS ANALYST

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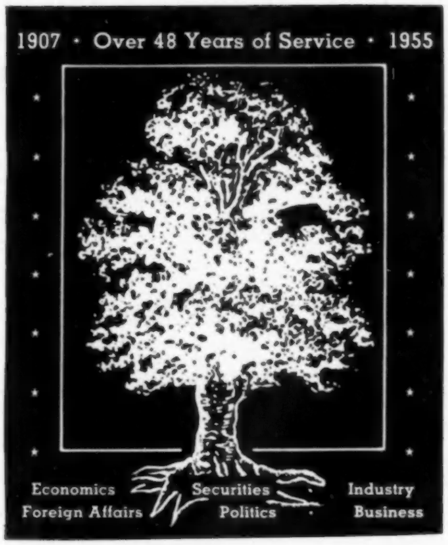
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. D. KING, *Managing Editor*



The Trend of Events

THE PRESIDENT'S TROUBLES . . . If the President thought that the political climate in Washington would remain untroubled for the rest of the present session of Congress, he must be disillusioned by now. Pulled simultaneously in different directions by his advisors, he must also face increasing hostility from the opposition party. Probably, he is not too much concerned as yet with the obvious manuevres of democratic politicians desperately trying to find issues for the 1956 campaign. Of far greater meaning to him is the wide split in his own party.

On important questions such as the tariff, defense appropriations, foreign aid and the financing of national projects, especially road-building, school aid and medical care, there is far greater division among the republican leaders than among their counterparts. In fact, the President, in vote after vote, has generally received more support from the democratic party than from the republican. But he probably will not be able to count on this support much longer as some democratic chieftans have been so angered by the release of the Yalta documents that they are on the verge of a political offensive that may reach as far as the White House, though the President himself has not only been innocent of their release but has lamented its obvious political purpose. Such frankness may get him into more trouble with influential members of his own party.

The situation has its ironic overtones for most observers agree that only President Eisenhower can give the republican party a fighting chance in the next elections. If that is true, it is difficult to understand why he cannot gain the whole-hearted and consistent support of the great majority of republican leaders. Thus far, this support has been erratic and, too often, given grudgingly. Under the circumstances, battered as he is by foe and undercut by friend, no one can blame him for looking so longingly to his Gettysburg farm where it is his heart's desire to retire.

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!

MORE AID FOR ASIA? . . . Congress will soon have before it a proposal by Mr. Harold Stassen, chief of the U. S. Foreign Operations Administration, to finance a $2 billion economic aid program for "free" Asia. The thought behind this plan is that the recipient Asiatic countries, not yet within the grip of the communists, will be enabled to build up their economies and thus eventually become dependable partners of the Western democracies, instead of becoming vassals to the Kremlin. Unfortunately, from Mr. Stassen's viewpoint, the launching of the new give-away program is badly timed. Just as the plan was announced, Mr. Nehru upset the apple-cart by declaring his chief purpose is to make India a socialist state. To emphasize his views, he rammed through the Indian Congress an amendment to the constitution which would give the state power to expropriate

property which it felt called on to seize in the interests of a socialist system.

The scope of such power far transcends that of any other Western government which in recent years may have adopted one phase or another of the socialist tenet, and comes close to resembling that of the communist governments, whose philosophy Mr. Nehru dislikes. No matter what one calls it the results are likely to be the same, for the drastic constitutional move planned by the Nehru government could eventually mean the end of large-scale private enterprise in that country.

It must occur to American citizens that by being asked through Congress to grant the huge sum of $2 billion in aid to Asia, they are virtually being called on to underwrite socialism. In recent years, the long-suffering American citizen has been asked to make many sacrifices for foreign nations, some of which have undoubtedly been necessary. But this particular sacrifice is certainly one that they should not be asked to make. No doubt, we must give some economic aid to Asia, under present conditions, but it should be on a reasonable scale and extended where it will do this country at least some good. It certainly should not be granted where the outcome is likely to foster socialism.

SMALL BUSINESS IS IMPORTANT TOO . . .In its current report to Congress prior to hearings which will determine whether this federal agency will expire June 30, or be given a new lease of life, the Small Business Administration gives a discouraging picture of the position of small business (less than $1 million in assets). The most significant feature is that in 1950, while net earnings of large corporations were rising, earnings after taxes of small businesses were declining. This decline remained uninterrupted for four years. By the middle of 1954, it had carried net earnings for small business down from an index figure of 122 to the astonishingly low figure of 46 in the early months of the year. Only recently has there been a sign of improvement.

These figures reveal clearly that under highly competitive modern conditions a very large percentage of small businesses find it difficult to operate with a worthwhile margin of profit. Among its chief problems in the past few years have been: how to secure adequate long-term capital for fixed assets; the sharp effects of a reduction in subcontracting opportunities with the decline in defense business; relatively high cost of carrying inventory, and steep promotional costs, for which the larger concerns, with their overflowing treasuries, are much better equipped.

In the preoccupation of the average investor with the affairs of the large corporations, there has been a tendency in investment circles to ignore the problems of the small businessman and the difficulties he faces. But there are over 4 million such enterprises in the United States, ranging from the corner candy store to the small local company employing several hundred people. In the aggregate this represents a massive economic force in this country.

Obviously, the condition of small business should be a matter of great concern to the government. Since the Small Business Administration is the only federal agency directly concerned with the little businessman, it is hoped that the life of this agency can be extended for another two years. This would be particularly valuable as one of the features of the bill to retain the Small Business Administration is to give it greater latitude in extending loans to small business. As extension of credit on a long-term basis to small business is highly essential, it can be seen how important it is that the life of the agency be extended.

Many observers have viewed with concern the growth of our very large corporations at a time when small business has a struggle in keeping afloat. We doubt whether a continuation of this situation would be in the interest of the industrial giants themselves, any more than that of small business itself. Already there are sign that the subject is moving into the arena of politics. Many years ago, "trust-busting" became a political shibboleth, which was very effective. There is no reason to believe that it has lost its appeal among the rank and file of small businessmen.

POPULATION AND RESOURCES . . . A warning voice was raised last month at the annual Wild Life Conference of North America against the squandering of this continent's irreplacable natural resources. While this country has come a long way from the heedless days when the forests of the Southeast and the older Northwest were ruthlessly cut to the ground, there is still to much of a tendency to think always that "there's more where that came from."

Dr. William Vogt, a population authority, showed us the grim other side of the vast increase in numbers of Americans, which we have so happily seized upon as evidence that a permanent boom can be built upon a permanent rise in demand. That isn't necessarily so, he reminds us. We had better listen.

At the rate population has been increasing since the mid-forties, it will double in the next forty years, Dr. Vogt believes, At the same time, the balance of raw material use and production has shifted against us, even with the population we have now. In 1890, he calculated, the country was adding 10 per cent more raw materials each year than it used up. Today, use is 15 per cent above renewal.

Of course, the chances are that the great population boom of the forties and so far into the fifties is a phenomenon which will come to an end not too long hence. Since 1939 the median age of marriages has fallen two years. This cannot continue for another forty years unless marriages are to be commonly contracted in high school. Students of such matters say that 2 million postwar babies were deferred—either by delays in marriage during the war, or as third and fourth births to couples who had deliberately limited their families in depression and war years.

More serious is the outpouring of American wealth and knowledge all over the world. Today, this is part of the depletion of which Dr. Vogt speaks. A generation hence, if we (*Please turn to page* 60)

As I See It!

By JOHN CORDELLI

CRACKS IN THE COMMUNIST ARMOR?

Is the partnership of the Soviet Union and Red China invulnerable to internal strains and external stresses? Both Moscow and Peiping would like us to think so. But our Secretary of State, Mr. Dulles, intimated a few weeks ago and again in one of his recent speeches that cracks, worth watching and exploiting, are beginning to appear in the monolithic facade that the Soviet Union and China present to the rest of the world.

This does not mean that the Russo-Chinese partnership will collapse tomorrow. Nothing of the sort. Unnatural though the alliance may be, the Soviet Union and Red China need each other to prevent any pincers movement against either of them. It may take a long time for the corrosives of self-interest and nationalism to loosen the cement that binds Moscow and Peiping together.

But the corrosive is at work, and one sign is the perceptible change that has taken place in the nature of the Russo-Chinese partnership. The period of domination of Communist China by its Soviet partner seems to be passing, if it has not passed already. Peiping has graduated from the vassalship that marks Moscow's Eastern European satellites. Peiping rather than Moscow is directing communist expansionism in Asia, and North Korea and Northern Vietnam are satellites of Peiping rather than of Moscow.

Other developments also point to the passing of Moscow's domination of the partnership. The top Soviet leaders who visited Peiping last Fall were rather deferential to Mao, who was promised additional aid in China's industrialization. The joint Soviet-Chinese stock companies in Manchuria were dissolved with Peiping assuming full control, and in a few weeks, from now the Chinese will take over Port Arthur, a city whose domination by foreigners has symbolized China's weakness for the last three generations. Many observers believe that Peiping's urgent demand for industrial goods and armaments may have been an important factor in Moscow's decision to concentrate once more on the output of capital goods and the building up of heavy industry at the expense of consumer goods.

IS IT ART AND WHAT DOES IT MEAN?

—Courtesy of N. Y. Times

What has been responsible for the growth of Red China's importance in communist councils? The number one reason is perhaps the rise of her prestige among the neighboring countries of Southeast Asia. The successful consolidation of a vast country like China has in itself been no mean achievement. But some of the prestige built up has been simply due to the lack of positive policy toward China on the part of the Free World. Here can be listed our own reluctance to push the Korean front closer to China's vital industrial centers in Manchuria, and our haste to end an unpopular war in Korea at almost any cost. The lack of Allied unity in Indochina and skillful maneuvering by Red Chinese Prime Minister Chou Enlai in Geneva made China look stronger and more determined than she actually was.

The quality of leadership has also favored the rise of Peiping. If anyone today were entitled to wear Stalin's mantle as the infallible high priest of communism, it would be China's President Mao Tse-tung rather than the garrulous Krushchev or the "Political General" Bulganin. Moreover, in China the line of succession to the throne is clear. The heir apparent, Prime Minister Chou Enlai, brilliant and without scruples, has no match among the Russian leaders.

But there is also a considerable difference in the natures of the communist regimes in the Kremlin and in Peiping. The leaders in the Kremlin, as Mr. Dulles pointed out, are anxious to keep out of war at present, if for no (*Please turn to page* 60)

Market Feverish—and Highly Volatile

On an over-all basis, stock prices rose fairly broadly over most of the last fortnight. The daily averages made up the greater part of recent declines. A test of ability to better the earlier bull-market highs may be near. In portfolio changes, continue to put the primary emphasis on the carefully appraised values and prospects of individual stocks.

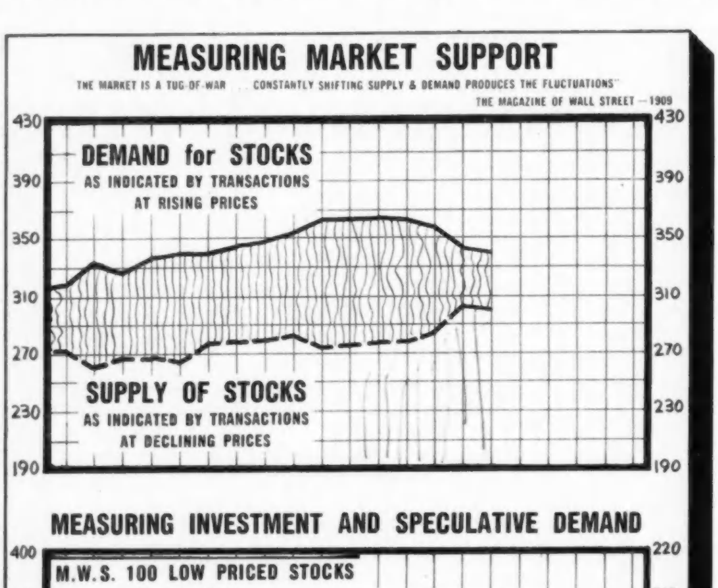
By A. T. MILLER

Recent sharp decline in the stock market ended with a selling climax on Monday, March 14, just two weeks ago as we go to press, and has been followed by a good recovery, most of which was scored in the four trading sessions of March 15-16 and 23-24, with a lull in between. The sell-off footed up to 28.32 points for the Dow industrial average, 11.04 points for rails and 3.35 points for the utility average. At last week's best closing levels, the industrials had made up 82% of the downswing, the rail average 77%, and utilities 63%.

Obviously, investors (both institutional and individual) and traders have been willing to buy stocks they like on price concessions from earlier highs, figuring that the sell-off was wide enough to restore an adequately sound technical position; and that the March 14 lows should hold for the presently foreseeable future, barring some unsettling news development. The latter might or might not take the form of a worrisome Asian war threat. Whether buyers are now sufficiently confident to follow stock prices up to any important extent remains to be seen.

Test Still Ahead

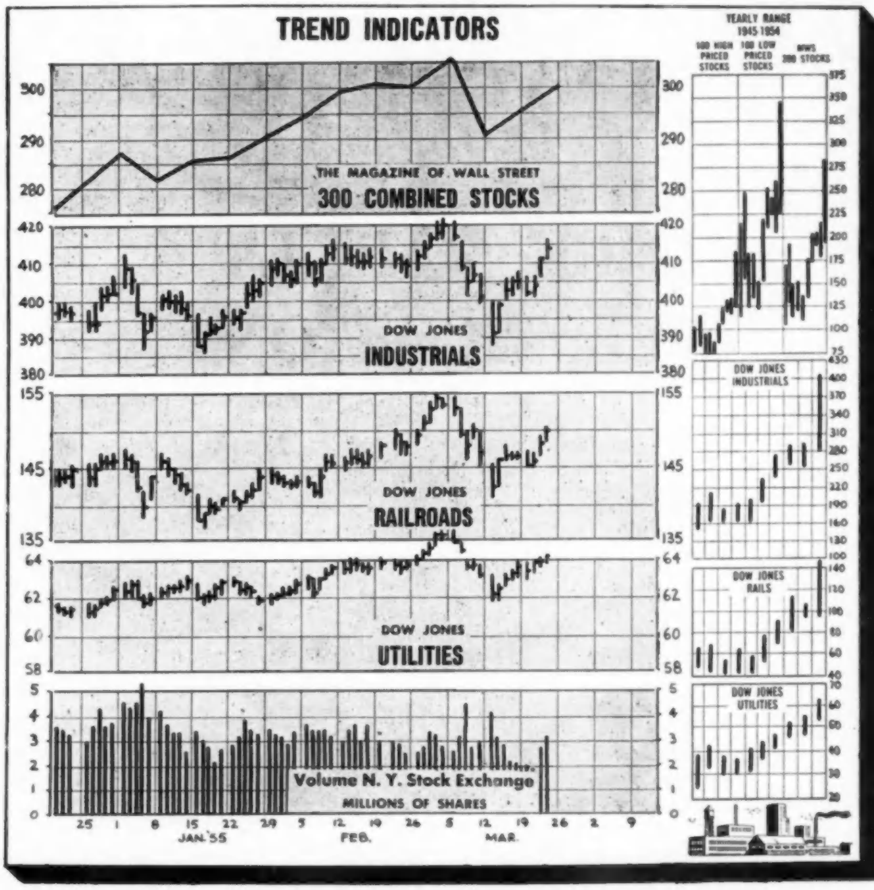
So far we have had no more than a trading-range recovery which has left the averages short of the prior highs and which showed some tentative signs of losing momentum toward the end of last week. Trading volume receded to the lowest levels of this year to date over the first six sessions of rally in prices. It broadened materially on strength last Wednesday and Thursday (March 23-24), but remained well under levels seen both on strength in late December and early January and around the lows of the recent correction. Thus, neither in the price movement nor in trading activity is there any positive evidence that the major upward trend is on the verge of being renewed and extended. Again barring a serious Far-East war threat, we are unable to see technical or fundamental reasons for a relapse to or below the March 14 lows any time soon. If that is correct, the alternatives might be (1) an early test and possible penetration of the early-March highs or (2) a further period of limited and selective movement within the March 4-14 range of fluctuation, pending more light on existing uncertainties, including Far-East developments. Given the first alternative, it does not necessarily follow that betterment of the previous highs would promise a dynamic net extension of the bull market.



Thus, as compared with the pace of advance in much of 1954 and especially during the final two months or so of 1954, upside progress so far in 1955 has not been so violent though in some cases, volatile enough. This seems to imply a considerable shift to speculative leadership on the January 18-March 4 phase of advance (which was preceded

by a substantial correction in the first half of January) — and some increase in the supply of stock for sale on strength. Illustrating this point, the industrial average at its March 4 high extended its January 3 high by less than 2.7%, the rail average by less than 5%.

It is clear enough that the Administration and the Federal Reserve Board do not want a market decline, now or later, significant enough to have an adverse effect on general business confidence and economic activity. But, for the same reason, it is also clear that they do not want and will frown on a speculative market boom. The latter could be guarded against by further progressive increases in margin requirement or, if necessary, by further general tightening of credit by the monetary authorities. This underlying threat that development of stock market excess would be officially opposed could well tend to restrain bullish enthusiasm.



Another factor of uncertainty is the outcome of current labor negotiations, involving demand for a guaranteed annual wage, in the key automobile industry, with the settlement sure to set a pattern for other major mass-production industries; and whether Ford or General Motors or both their present contracts expire May 29 and June 1) will be hit by a strike. Strikes alone rarely unsettle the market, except when crucial issues of national policy are involved, such, for example, as the steel strike a few years ago, involving President Truman's effort to force acceptaance of the union demands by Federal "seizure" of the industry. The guaranteed annual wage on any significant scale is, of course, a crucial economic issue, since it is potentially capable of being very costly to profits in any year of poor business and of bankruting many weaker concerns. The "betting" around Detroit is that the union probably will accept some compromise which "puts its foot in the door," and that a strike will be avoided.

A third uncertainty is to what extent—with or without a crippling automobile strike—industrial activity may recede from its spring peak in the third quarter. The automobile, steel and housing booms have shown surprising vigor to date, but the consensus in all of these fields is that the present pace surely will not continue, that some third-quarter recession in over-all production must be allowed for.

Rise in Dividends

A further rise in confidence, usually seen at advanced bull-market levels and reflected in willingness to put higher and higher valuations on earnings and dividends, could, of course, take the market higher. There is "leeway" for it, since present average price-earnings ratios are substantially lower, and average dividend yields substantially higher, than those established around past bull-market highs —but the latter represented over-valuation, followed by major market declines. The further we go toward ultimate over-valuation in the present instance, the greater becomes the risk factor and the probable eventual penalty.

Dividends As Market Base

In the upward trend of dividends is a more solid basis for gradual, moderate, irregular advance in average stock prices, and for good advances in some individual stocks. Total January-February payments were 5% above a year ago, February payments 7% above a year ago. Depending on the year-end extras, which will depend on business conditions and the confidence of corporate managements at the time, the full-year total conceivably could exceed 1954's record $9.9 billion by 10% or so.

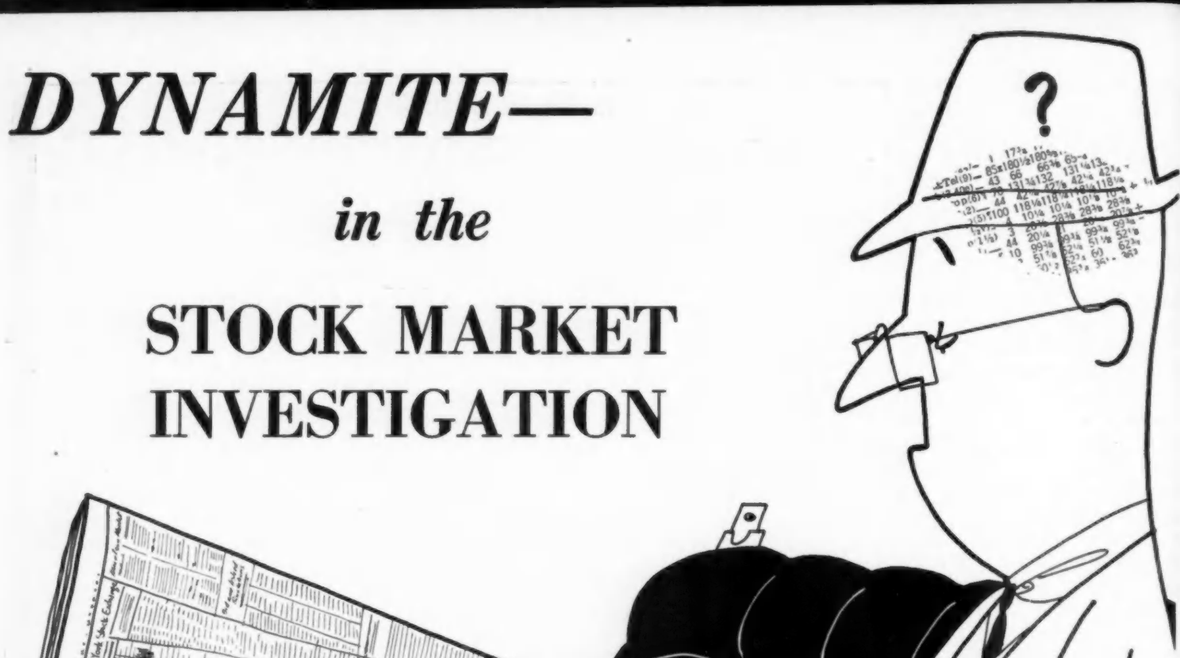
We suggest that you continue to put primary emphasis on carefully appraised merits of individual stocks. Some are over-valued, inviting at least partial profit taking. Others are still reasonably good values on indicated 1955, and longer-term, promise for earnings and dividends. Necessarily, a more cautious attitude generally should be adopted, particularly with respect to the more volatile issues.

—Monday, March 28

DYNAMITE—

in the

STOCK MARKET INVESTIGATION



By E. D. KING

Managing Editor, *The Magazine of Wall Street*

The deep concern with which investors throughout the nation have viewed the inquiry into the stock market conducted by the Senate Banking Sub-committee (Fulbright Committee) expressed itself in a brief but savage onslaught on security prices. Disconcerting as this was to the rank and file of investors as well as to the financial community itself, the real importance of the investigation lies in its more distant implications, for the outcome can quite easily have an important bearing on the nation's economy.

At the outset, it should be said that those officials and others who have testified that the investigation would have an upsetting influence on public confidence have not considered that much good could come from an inquiry conducted on constructive lines. Unfortunately, some of the members of the Committee have allowed themselves to become diverted by a wholly extraneous discussion of the position of the stock market with reference to whether stock prices are high or low. It can reasonably be maintained, however, that an inquiry directed along these lines would, in all likelihood, prove abortive for it is impossible to state with absolute finality whether stock prices are high or low. At best, this can only be a matter of opinion, though some opinions may be worth more than others, and one could argue interminably on this subject without a definite answer. Therefore, such a subject, it would seem, is not a safe one for this Committee to become involved in, and this has already become apparent.

On the other hand, there should be no doubt in the mind of objective persons that an inquiry into the various phases of the operation of the Exchanges and the securities markets, in general, can prove most useful. In the first place, deficiencies have been observed in regulations affecting security transactions, and there have been undeniable lapses in recent years in the methods by which the public has been encouraged to participate in market activities. It is true that the various Exchanges, notably the New York Stock Exchange, themselves have spared no effort to police their precincts and have not hesitated to inflict penalties in the case of obvious transgressions against the rules which they have laid down for the protection of the public. *Nevertheless, something still remains to be done in order to remove existing weaknesses, both on the level of Federal and state regulation, and self-regulation by the Stock Exchanges themselves; and this would include the unlisted markets, as well.* These points will be elaborated later on.

While an overhauling of various phases of the vast securities market complex is due, this should not be done in a manner to interfere with the legitimate functions of the Exchanges and other securities markets. These functions are extremely important in an economy such as ours and, if interfered with without full consideration of the consequences, could seriously weaken the foundations of the economy itself. If nothing else, the testimony brought out in the stock market inquiry has shown that a strong

and liquid market in securities is highly essential to the free functioning of our economy.

It is well to consider that the securities markets provide the basic machinery whereby funds are obtained with which to finance the nation's industries. The continued growth of our economy is entirely dependent on this flow of capital. So-called "risk capital" is the very lifeblood of the economy and without it business life in this nation would stagnate. This would be fatal in a nation with such a rapidly growing population as ours, with its need for an ever higher standard of living.

Securities Markets Basic to Economy

In this immense process, the securities markets, particularly the Stock Exchange, play a vital role for theirs is the mechanism by which industry taps the financial resources of the nation through the sale of new securities. Without the free and convenient markets established through these agencies, new financing would become almost impossible as the liquidity which is so highly essential to investment would have disappeared. It is obvious, therefore, that the securities markets perform a prime service in the financing of industry and in the flow of capital.

These facts, of course, are quite familiar to experienced investors, if not to the general public, but are worth repeating because of their importance to the understanding of the functions of our securities markets. Since these markets are so vital to our continued prosperity, it follows that any investigation into their activities must be done with circumspection lest the confidence of the public be impaired irretrievably and business itself thereby affected.

By the same token, the officials and members of the Exchanges and securities markets, in general, should not remain oblivious to situations in their control which require correction and they should do their share to eliminate them, above and beyond their conventional policing activities. It may not be quite convincing enough, for example, for the Exchanges and others dominant in the securities business, to assert that their activities are being efficiently policed by themselves as well as the S. E. C. The fact is that, in addition to their basic functions in providing markets for securities, the Exchanges, in a broad sense are public guardians, or should so consider themselves. They, therefore, have the duty and responsibility of lending their efforts to improve the general methods by which the public is served in investment matters.

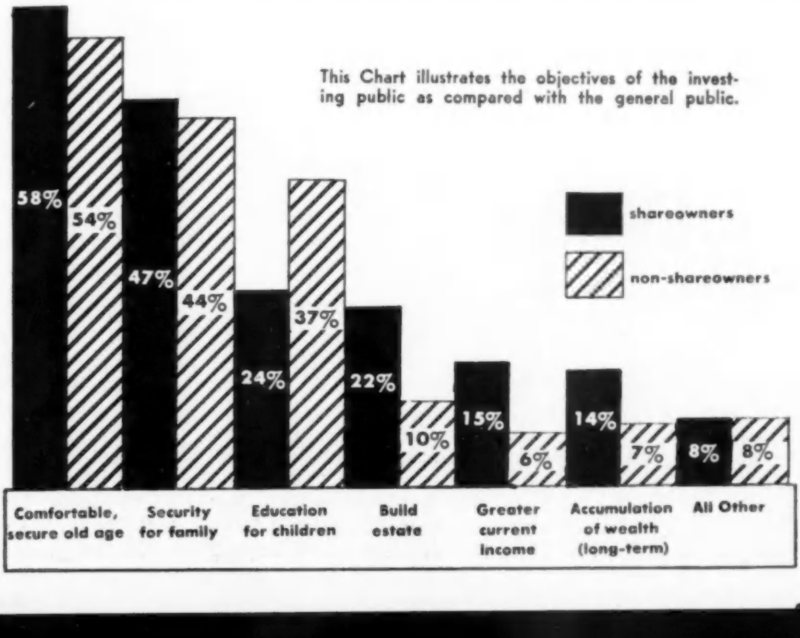
Such an attitude would be desirable at this particular time since the more inexperienced sectors of the investing public have been showing signs of casting caution to the winds, embarking on a speculative spree which might prove harmful to them as well as to the economy. Indeed, it is precisely because of the concern felt in government quarters and among responsible businessmen over the unparalleled rise in the stocks since the autumn of 1953 that the present inquiry was initiated. It is realized, of course, that a repetition of the 1929 stock market debacle, which some more fearful observers believe may yet occur would be disastrous.

Factors Behind Wide Speculation

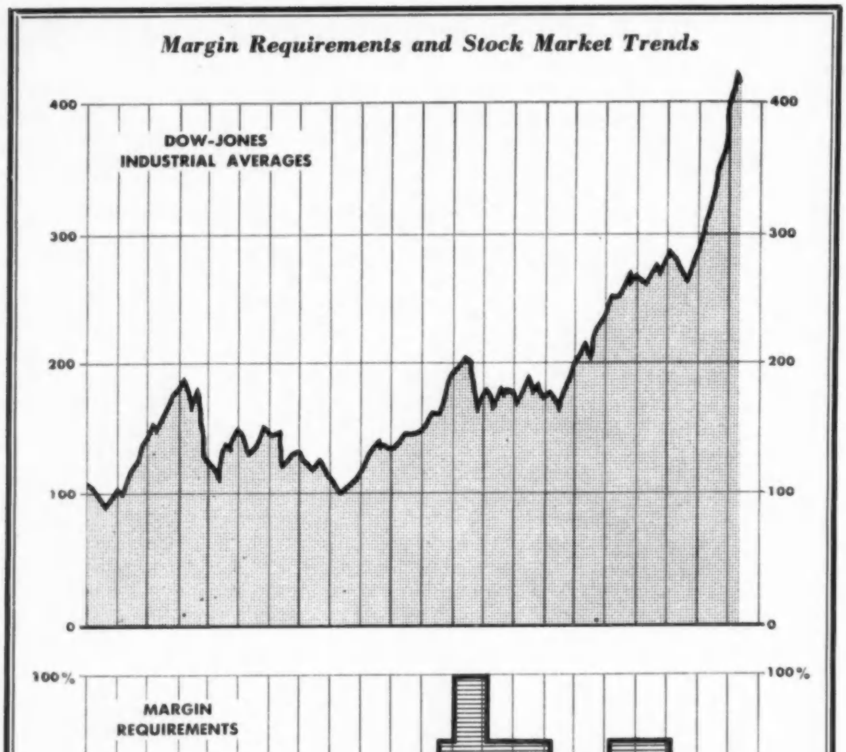
Many factors have entered into the widespread speculation in the stock market. Some of these have inevitably sprung from what has been construed by the public to be a highly favorable government attitude towards business, in contrast with that of previous Administrations. This feeling of optimism, naturally, has been enhanced by mounting evidence of a business revival. Factors so potent have a normally stimulating influence on the securities markets, and if business in 1955, as some more optimistic observers claim, reached new heights, it probably would be more difficult to restrain stock market speculation than before. Yet, if restraint were unwisely imposed through new legislation by the federal government, the consequences could bring about precisely the situation it was trying to avoid, namely a serious reversal in business and securities.

"Thin" Markets in Stocks

Other factors which have facilitated stock speculation for the rise have originated from peculiarities in the Federal laws regulating security transactions and, perhaps more important, from the operation of the Federal tax laws. The capital gains tax, for example, has, without doubt, been responsible for a growing scarcity of high-grade issues since many holders refuse to sell and thus incur the 25% tax penalty. This is particularly true of the large institutional investors-investment trusts, mutual funds, universities, pension funds, philanthropic foundations and the like. Add to this the holdings of individual investors who are also averse to accepting long-standing substantial profits and paying large capital gains taxes and it will be seen that in recent



This Chart illustrates the objectives of the investing public as compared with the general public.



Margin Requirements and Stock Market Trends

years a simply enormous amount of stock has been withheld from the market for reasons dictated apart from considerations of intrinsic value or prospects.

Under these conditions, the supply of good issues has become so scarce at times that any concentrated buying forces up the price in abnormally rapid fashion. It has been by no means unusual for individual stocks, even in the medium-priced category —to rise five to ten points in a single market session. This obviously can only be the result of an abnormally "thin market" in stocks in short supply, and does not occur frequently in more normal markets. The situation has had some peculiar consequences in that the spectacle of inordinately rapid price advances has encouraged large numbers of the public to believe that it is a comparatively simple thing to take advantage of this trend and thereby make large, quick and easy profits. The problem of margins also deserves consideration. When margin requirements are too low, public speculation is facilitated to some extent. On the other hand, the proposal made in the current hearings on the stock market that transactions be placed on a full 100%-cash-basis would undoubtedly have an effect that the sponsors of such a restrictive move cannot have fully reckoned with. For, the drying up of buying power that such a development would cause would produce an equally "thin" market on the downside so that, instead of advances of five and ten points a day in individual stocks, there would be declines of similar, or even greater, proportions.

In his testimony on the use of credit in security transactions, Mr. McChesney Martin, Chairman of the Federal Reserve Board, stated that it would be harmful to force the stock market to operate without credit, and that if the market were denied credit, the ultimate victim would be the American standard of living. He pointed out that in recent years credit for all purposes had expanded by $200 billion but that credit used in carrying securities had increased only $2 billion. Obviously, the stock market is absorbing far less credit than other sectors of the economy, far less, for example, than mortgage credit.

Just for the record, it should be said that the Federal Reserve Board control of credit for security transactions is not fully effective. Some individuals in the purchase of securities resort to the loopholes provided by the banks, thus contravening margin requirements. In his recent testimony, Mr. Martin admitted that there is a fair amount of "leakage" of bank credit into stock speculation but had the consoling thought that it cannot be very large in the aggregate. Nevertheless, it is a factor of some proportions. Incidentally, such transactions for securing bank credit are not done with the connivance of the banks as this is against the law. But through the devious methods of individual borrowers, the law can be and is flouted.

High-Pressure Salesmanship

Other factors contributing to the increased speculation in the stock market are largely generated by high-pressure salesmanship from "tipsters" and the like. And, in this respect, it must be acknowledged that some brokerage firms have been by no means unduly conservative in their issuance of literature on stocks which they call to the attention of their customers and would-be-customers. All this has had the effect of stimulating public interest in securities. This, of course, is an entirely legitimate activity on the part of brokers but, taken in connection with the rapid increase in public speculation, has played a particularly important part in the extraordinary activity in the stock market.

Of far greater significance, however, is the eno

mous increase in the sale of worthless or semi-worthless securities to the public of very small and, in some cases, almost invisible companies. Not in many years, has there been such a deluge of public offerings of all kinds—uranium and electronics in particular—which by no stretch of the imagination could pass the most elementary test of legitimacy. Unfortunately, under Regulation A of the Security & Exchange Commission, the issuance of individual new offerings totaling under $300,000 and which have generally been sold to the public at $1 a share and less is not subject to registration. Thus, the purveyors of the more worthless types of such "securities" are enabled to escape the rigorous requirements for public offerings with which all sponsors of larger public issues of securities must comply. The result is that inexperienced investors, not cognizant of the risks involved in this class of new financing, have been encouraged to buy and are now holding thousands of bales of brightly colored paper with they believe to be securities of value. Many millions of dollars are thus being lost by the public and most likely will continue to be lost until Regulation A is repealed, and all new issues, regardless of size are made subject to the most rigorous protections before issuance.

In the meantime, it would have helped if the Exchanges had seen fit to take a position on this matter and had done all they could to discourage the public from this form of harmful and costly speculation. It also might be added that newspapers, the radio and the magazines can help if they would refuse all advertising of obviously highly speculative and risky new issues. (This magazine, at least, has always rejected advertising of this type and will continue to do so.)

Over-the-Counter Market

Not many know that the so-called over-the-counter market is larger than all the combined Stock Exchanges of the country. Practically every locality is the seat of companies, large and small, including banks and insurance companies, many of them quite important, whose securities are dealt in privately. Interest in these securities is widespread.

The size of this market can be appreciated from the fact that 4,500 dealers and 2,500 security houses are active in this business. It is estimated that they handle from 70,000 to 100,000 separate security issues, compared with only 3,000 listed on all the Exchanges. Furthermore, it is the seat of all private dealings in Government securities, with daily turnover of hundreds of millions of dollars.

The over-the-counter market also serves as a distributing agency for new issues prior to listing. It is also used to effect "secondary" distributions to private individuals or groups when sales of large dimensions in individual securities cannot be safely handled on the Exchanges, if they must be made at one time.

Despite its vastness and obvious importance, this market is unregulated, thus compelling investors to rely completely on the veracity and integrity of the dealers. Most of the established and reputable dealers, of course, have a good reputation for honesty and efficiency in executing customers' orders but even in such cases, there seems to be ground for criticism with respect to the fact that dealers, often acting as principals, set arbitrary prices in both purchases and sales. Since most dealers in the over-the-counter market do not receive commissions (some brokers do work on a *(Please turn to page 52)*

Highlights of Recent N. Y. Stock Exchange Transactions

1 (a) 76% of the business on the Exchange is transacted for the account of individuals and institutional investors.

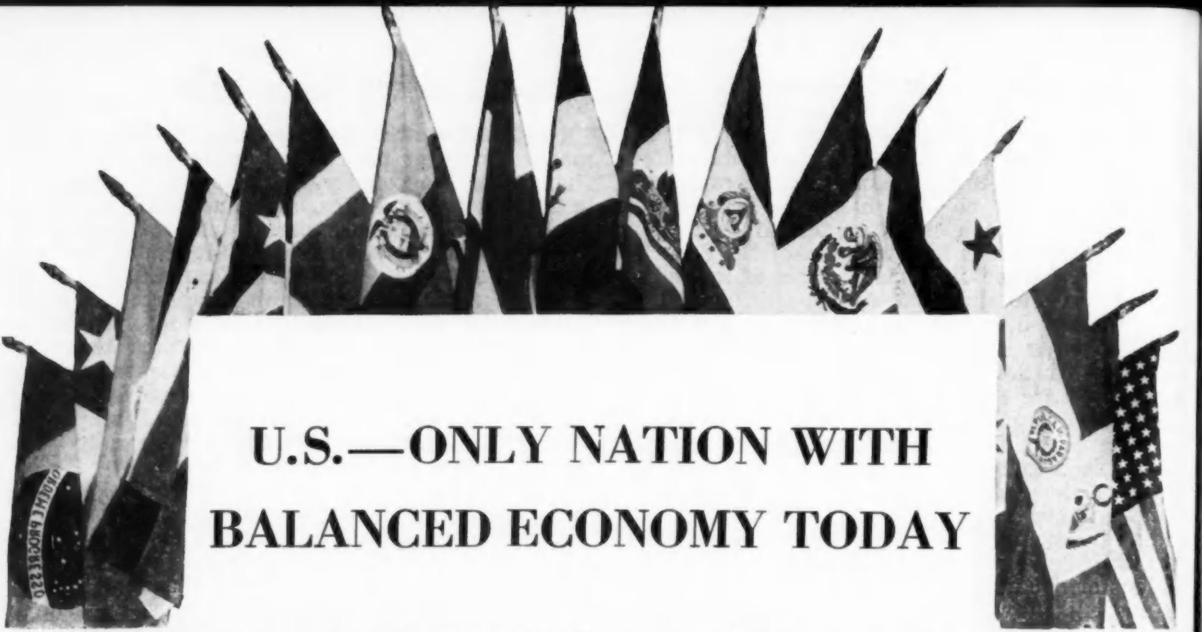
(b) 24% of the business is by members or member firm partners of the N. Y. Stock Exchange, or non-member broker/dealers.

2. Margin transactions of the public in December (latest available report) were estimated at the rate of 32.7% of the total volume, showing a sharp increase from the 23.9%, earlier in 1954. In 1952, they were as low as 19.5% of the total. According to this trend, public speculation on margin had been increasing rapidly at the end of last year and, presumably, in the first two months of this year until the recent break in the market.

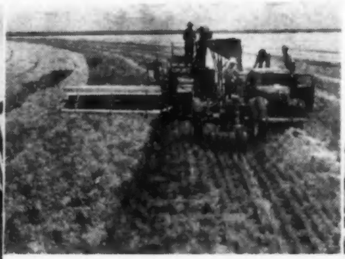
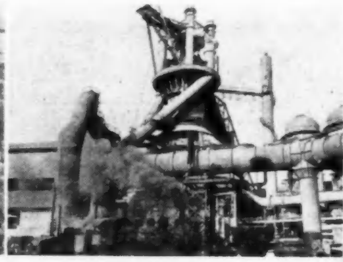
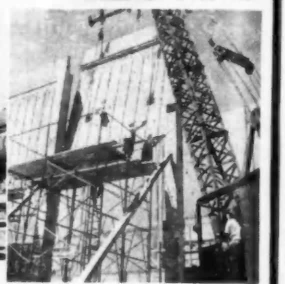
3. The increase in public activity in the market is also indicated in a comparison with institutional-broker activity. On balance, the public is now doing a larger share of the business than institutional-broker organizations. The latter's dealings have declined from 19.2% of the total volume of Exchange transactions to 13.6%. A falling off is also noted in non-member and N. Y. Stock Exchange members. At the same time, the public has sharply increased its activity, from 54.4% of the total to 62.3%.

4. The public's investing and trading habits have been changing in the past year, with the emphasis on greater speculative activity. Trading transactions on margin for the short-term (1-6 mos.) increased sharply from 7.3% to 11.4% but the increase in short-term cash transactions was barely visible, offering further proof of the increasing inclination of the public to trade on margin.

5. Banks have been sellers on balance, but mutual funds and insurance companies have been buyers on balance. Members of the Exchange sold more than they bought.



U.S.—ONLY NATION WITH BALANCED ECONOMY TODAY

By WARNER T. WILSON

For the past fifty years, the American economy has been distinguishing itself, above all other national economic systems, in two fundamental respects. First, it has enjoyed the fastest rate of growth in output, and in per capita consumption, in world history. Secondly, it has managed to integrate this tremendous rate of growth into a pattern of economic activity that is remarkable for its longer-term stability. This does not mean that it has been free of the influence of the business cycle. But with the exception of the world-wide cataclysm of the early thirties, the U. S. economy has demonstrated an adaptability, a flexibility, and a capacity for fast self-adjustment that are the envy of the capitalist world, and a constant disappointment to the Communist world.

While the American price level has certainly risen sharply in the past fifteen years, America has not had the European brand of "galloping inflation", which implies a flight from money into goods, since the Civil War. With the exception of 1931-1933, when banking and monetary collapses abroad, notably in Austria and England, compounded the monetary problems in this country, America has had no collapse of capital values such as has occurred periodically in European and South American countries. The rate of the nation's growth has certainly varied over the decades, but again with the exception of the 1930's, growth has never ceased for any significant period of time. Stagnation and crisis, the twin plagues which from time to time have brought foreign economies to their knees, and have frequently precipitated violent political change in other countries, are virtually unknown in America.

It is certainly not easy to draw up any definitive list of reasons why this should be so. Other nations enjoy the same kind of abundance and variety of resources available in the southern half of the North American continent. Other nations enjoy the various and invigorating climate to which is often attributed the active spirit of America. Our own citizenry are drawn from all parts of the world: we have racial and emotional ties with most of the major nations on earth. In terms of time, we are actually at a disadvantage: our nation was virgin forest one hundred years after the seeds of the industrial revolution began to sprout in the textile industry of Britain, and the metals technology of Germany. There were thriving commodity markets in London, and very sophisticated trading practices in Amsterdam, long before the Boston tea party. Yet, we have forged ahead although we had a comparatively late start.

In any explanation of the unparalleled material triumphs of the United States, resources, climate, and the temperament of our people certainly deserve a place. But the element that bound these factors together in a driving surge of creative energy was, evidently, a unique set of economic and political institutions, and a developing American tradition of freedom, of reward for effort, of independence, of continuing confidence.

Our Three Basic Institutions

Foremost among these institutions were three: the free market; competition; and the inviolability of personal property rights. Together, these provided incentive for productive effort, and assured that the rewards for productive effort would be shared equitably between producer and consumer.

Today, almost two centuries after this system took form, it has developed into an elaborate, complex, counterbalanced mechanism for maintaining economic growth, and for keeping human and material resources as fully occupied as possible, at the same time that it guarantees that the composition of the national output is kept very closely in line with the nation's needs.

It is this last point that is, perhaps, the great distinguishing characteristic of the American economy. In no other nation is the flow of output so sensitive to demand. In the fully planned economies of Russia and its satellites, the strict American connection between demand and supply simply does not exist, because the free market mechanism that preserves the connection has been destroyed. The planning staffs of the Kremlin cannot, even if they wished to, estimate national demand for the hundreds of thousands of products and services that go into the pattern of daily living and working; the result is overproduction of a few items, and acute shortages of many others. Recent descriptions of consumer shopping facilities in Moscow make the point: the selection consists of a mountainous supply of one commodity, where the production plan was successful, and bare shelves for a whole range of commodities in keen demand, where the production goal was inadequate, or the direction of resources to meet production needs was inadequate.

Accelerating Investment Flow

In America, the economic system abhors a shortage in the same instant and inevitable way that nature abhors a vacuum. Shortage drives up price. This in the first instance equates supply and demand. But high price means high profit margin, high profit margin means a greatly accelerated flow of investment funds into the industry, and increased investment means rising output. In the American context of the free market, shortages automatically set in motion the forces to eliminate them. Literally hundreds of applications of these forces can be noted in the records of American business activity in any year. Penicillin shortage turned to a super-abundance of supply in a few short years. The automobile shortage of the late 1940's has built an automobile supply which is nearing excess even for this wheel-conscious nation.

Home shortages of the early postwar years have developed a rate of privately financed home-building that stands as an imposing record for all nations to shoot at, including those socialist and communist nations which have been attempting to remedy abysmal housing conditions by mass publicly financed building programs.

During the war, the American public found paper-bound, inexpensive editions of books very much to their taste. Today, the American "pocket book" industry alone dwarfs the publishing activities of most other nations; output has soared, while unit cost and unit profit have dwindled. The customer has been served.

Key link in the adjustment of output to demand is the flow of American saving into investment, and the direction of new investment into those industries where relative scarcity means a high rate of return on investment. Wherever and whenever this vital direction of investment through profit rates has been subdued or destroyed by planning, shortages have been the inevitable consequence. The differences in development between postwar Germany and postwar England illustrate the importance of this principle. England, turned Socialist under the Labor party, nationalized the very industries where increases in output were urgently needed for postwar recovery. It restrained prices, continued rationing, planned investment. Thereby, it rudely interrupted the natural growth processes which would in time have corrected the shortages, and Eng-

How Economic Strength of Important Countries Compares

		UNITED STATES	FRANCE	WEST GERMANY	UNITED KINGDOM	INDIA	JAPAN	U.S.S.R
Steel Prod.	mil. metric tons	101	10	15	18	2	8	38
Cement Prod.	mil. metric tons	45	9	15	11	4	9	16
Coal Prod.	mil. metric tons	436	53	126	228	36	47	320
Crude Oil Prod.	mil. metric tons	3190	0.3	2.0	0.1	0.3	0.3	52.0
Elec. Power Prod.	bil. kwh	514	41	61	67	7	56	133
Cotton Cloth Prod.	bil. meters	9	NA	NA	2	4	NA	4
Shoe Prod.	mil. prs.	500	45	62	50	6	4	197
Cattle on Farm	number in millions	94	16	12	10	150	3	63
Hogs on Farm	number in millions	51	7	13	1	4	1	29

(NA—Not Available)

land's postwar development, until the return of conservative economic policies with the victory of the Churchill government, was halting and ineffectual.

In Germany, on the other hand, where the destruction of the war was vastly greater, private initiative took hold under essentially conservative economic policies. German postwar recovery, particularly in recent years, stands as one of the great victories of the free market over scarcity. In 1954, industrial output in the Federal Republic averaged more than 50% above 1950; in the intervening years growth has been steady. In England, it was not until 1952 that prosperity and abundance began gradually to emerge out of postwar scarcity, and by 1954 output was still only about 15% above 1950.

Competition the Vital Factor

As a necessary corollary to the flow of investment, competition stands as one of the great organizing forces of the American economy. Wherever competition has been absent in other nations, there growth has been slow, and living standards have failed to rise substantially. Notably in France, where economic competition has always been a secondary diluted aspect of markets, and where managerial efforts have historically been directed more at obtaining an exclusive market through cartelization or other protective arrangements, than through efficient, low-cost production and price competition, postwar growth has been strikingly slow. And in France, more than in any other major Western nation, postwar inflation has been most persistent. The level of consumer prices in France is now about 30% higher than in 1950; in Sweden, where the vigor of competition has been considerably diluted by central planning and particularly by artificial monetary controls, the consumer price level is 28% higher than in 1950. (In the United States, consumer prices are now slightly more than 10% above their 1950 level; in Germany, they are exactly 10% higher.) Swedish production, like French production, has lagged well behind the United States and Germany.

But inflation, as it has proceeded in France, is more than a symptom of poor economic health; it is also one of the root causes. For chronic inflation dissuades individuals from saving. It is saving that makes possible investment, and it is investment —in plants, in machinery, in transportation facilities, power facilities, communications networks,— that add to national wealth, and build the national production base. Pre-eminently among nations of the world, America is a saving and investing nation; it consumes a relatively small proportion of its total output, and invests the remainder in resources for the future. This is a basic characteristic of a rapidly growing economy, where consumption takes a relatively high share of total output, as it recently has in Italy, for example, and in Britain, the growth of the production base is necessarily slow.

A Disadvantage of Centralized Planning

It is true that fully planned economics can stimulate a high saving rate, and a high rate of investment. Expropriation of the output of labor represents, in a sense, enforced saving, and these forced savings have been used, in the Soviet and its satellites, to finance massive investment in capital goods industries. However, where planning from a central source replaces the free play of market forces, such investment is likely to have an extremely high waste factor. This conclusion has been thoroughly borne out in Russia itself. In the Soviet Union, expansion of industrial capacity in investment goods proceeded much more rapidly than the expansion of fuels and raw materials. In a free economy, this misdirection of investment would have been corrected almost immediately by shifts in price and profitability; in the Soviet Union it went unrevealed until it developed into a fundamental bottleneck to industrial growth.

While the massive redirection of investment was thus defeating itself through an internal imbalance, it was depriving the Russian people of any benefit in the form of a rising standard of living. By 1953, in fact, internal pressures in Russia itself, and in all of the satellite nations, had reached a level which required some lessening in the investment rate, and some rise in consumption. In 1954 and 1955, at least until the time of Malenkov's decline, the production plans announced in Bulgaria, Czechoslovakia, eastern Germany, Hungary, Poland, and Romania, all called for a lower rate of investment in heavy industry, and a higher rate of consumption-type activity. In recent months, of course, there have been indications that this trend toward cultivating the consumer has again been reversed. However, even before its reversal its success was very much in question because of the dismal failure of another part of the planned economy.

In recent years, the actualities of Russia and satellite agriculture have fallen far short of the planned goals. The problem was particularly acute with regard to those agricultural products such as livestock and vegetables, for which demand was actually rising rapidly. (In the U. S., of course, this would have yielded a rapid rise in prices of beef and vegetables, and a marked increase in supply in less than two years.) The Russian fixed pricing system for these agricultural commodities actually made them less profitable to produce than those commodities for which there was a considerable surplus over demand! A large share of these commodities were produced on private acreage of members of collective farms. The drive toward collectivization in Russia was such that incentives to produce on private acreage were gradually withdrawn, and as incentive has dwindled, so has production. In these fully planned economies, even a fully planned high level of investment is thus likely to be self-defeating through the constant appearance of disproportionalities which would be quickly corrected in a free economy.

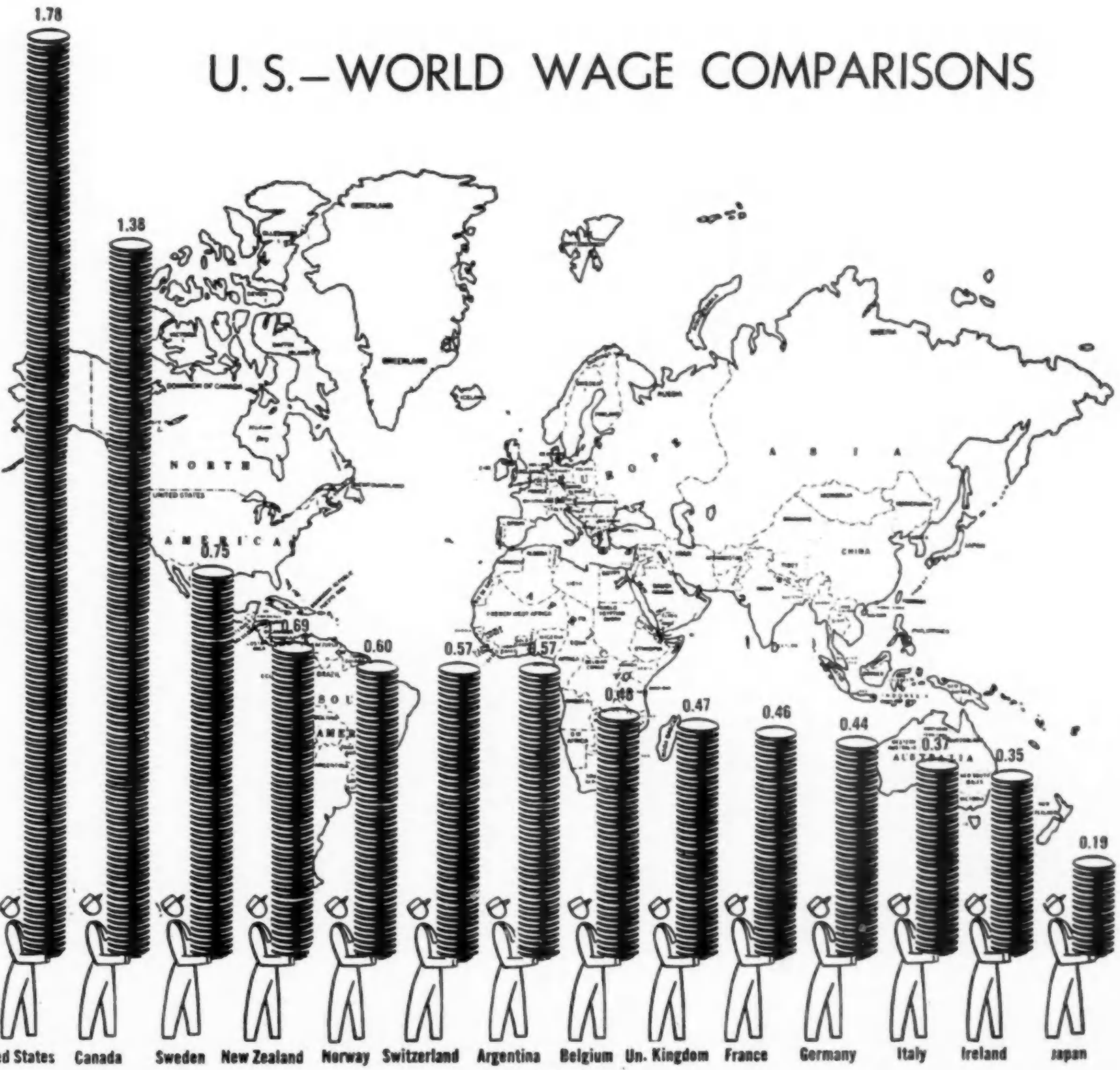
High Level of U. S. Productivity

A further important distinction between the United States and the Soviet-dominated sphere is the extraordinary high level of productivity achieved in this country, in both agricultural and nonagricultural activity. Measured in terms of employment or value of output, agriculture in the United States now represents about 11% of the nation's economy; in the Russian sphere, it represents almost 50%. American agricultural productivity has risen so rapidly that despite a 20% decline in agricultural population over the past two decades we are faced more with agricultural surplus than with shortage. Rising productivity on the farm has released about

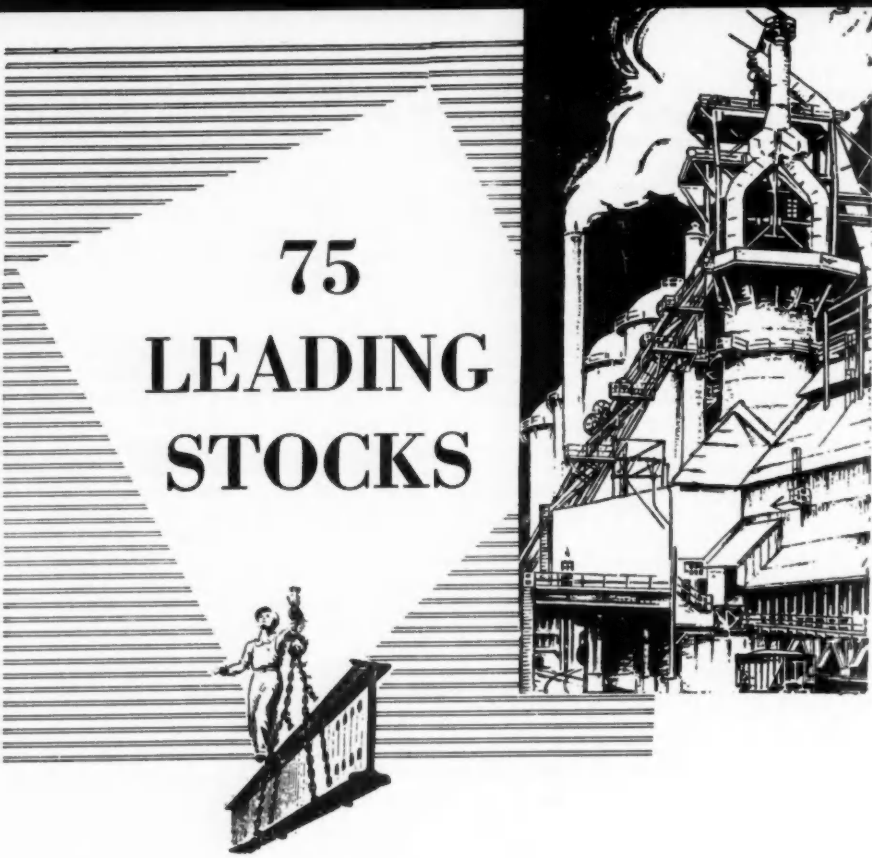
5 million Americans for work in factories: and within the American system this redirection of labor, made possible by rising productivity, has taken place through the automatic mechanisms of the free market. In the Communist world, however, agricultural productivity is so low that manpower cannot be released from agricultural to nonagricultural pursuits without threatening essential food supplies. For this low productivity, authorities give as the predominant reason low incentives, since the Soviet collective farmer gets little individual recognition of accomplishment.

Out of this general commentary on the condition of United States enterprise, relative to economic activity in the rest of the world, a number of significant differences emerge. Almost all of them relate, in one way or another, to the requirement of the free market, and the free play of natural economic law which directs the activity of individuals into channels which benefit the whole economy. In times of peace, it is almost the unanimous evidence of the past ten years that a marketplace economy, oriented around the free play of supply and demand and the incentives to activity that exist in a profit-making, private-property society, will grow faster, and avoid extremes better, than any partially or fully planned economy. To defy economic law is to court inflation, on the one hand, or secular stagnation on the other hand.

At the same time, the marketplace economy, to prosper, must exist in an atmosphere of confidence —confidence in the future, and, most importantly, confidence in the determination of government to maintain property rights, to preserve economic incentives, to avoid constrictive taxation, and to maintain sound monetary conditions. With only occasional interruptions, this kind of atmosphere has prevailed almost (*Please turn to page 48*)



In U. S. Dollars



75 LEADING STOCKS

Appraising The Real Values Behind The Leaders

By WARD GATES

Spring cleaning is a chore usually associated with household duties but it might well serve as a reminder to investors to take some time and reappraise their portfolios in the light of developments which have occurred during the past year.

The time is proper for this task because it follows on the heels of a flood of annual reports which offer a wealth of information about corporate affairs including sales and earnings trends, capital expenditures, balance sheet details and financing needs. From these pamphlets, an investor is often able to spot trends which foretell of an improved earnings position of a corporation or possibly, of some retrogression.

All too often, investors assume an unjustified complacency about the contents of their portfolios because the selections were wise when originally made. Sometimes, however, they fail to recognize a change in the industry's trend as it develops, and learn of it long after corrective action should have been taken. The little time needed would be well spent in "taking stock" of the entire list of holdings by reviewing each issue in relation to current statistical and psychological evidence. Some thought should also be devoted to selection of stocks to replace any which are to be eliminated.

Evaluation of security holdings should be on the basis of the current price as it is related to certain definable indicators. A company may have wonderful prospects for growth yet the price of its stock may be so high as to discount the expansion for several years in advance. Other companies may be just as fortunate in their outlook yet the price on their common stock remains relatively low because large groups of investors are unaware of the situation. These latter offer the opportunity which investors must be ever on the alert to find.

Examination of price alone can give no basis for judgment. The investor must compare the price with other statistical information at hand and look at each issue in relation to the over-all market, to comparable issues and to its prospects. Basically, earning power is the most important indicator but its determinant depends on many factors. The value and condition of plant and equipment, the net working capital position of the company, whether earnings are reinvested or paid out as dividends are all factors which can give clues to a company's pros-

Vital Statistics on 75 Leading Stocks

INDUSTRIALS	Book Value 1946	Book Value 1954	Retained Earnings Per Share 1946 to 1954	Net Working Capital 1954 (Mil.)	1953 Net Per Share	1953 Div. Per Share	1954 Net per Share	1954 Div. per Share	Recent Price	Div. Yield	Price-Times Earnings Ratio 1954
Allied Chemical & Dye	$ 25.36	$ 38.26	$13.83	$145	$ 5.10	$3.00	$4.73	$3.00	97	3.0%	20.4
Allis-Chalmers Mfg.	41.16	68.18	27.47	263	6.58	4.00	7.20	4.00	76	5.2	10.5
Aluminum Co. of Amer.	19.84	35.70[1]	20.80	87[1]	4.71	1.57½	4.00[2]	1.60	101	1.5	25.2
American Can	14.67	25.84	10.51	129	2.56	1.40	2.53	1.55	40	3.8	15.8
American Smelt. & Refining	21.04	43.73[1]	23.00	116[1]	2.87	2.50	3.50[2]	2.00	43	4.6	12.2
American Tobacco	29.70	53.89	21.79	550	5.90	4.00	6.12	4.40	65	6.7	10.6
Babcock & Wilcox	22.41	65.12	37.99	80	7.75	2.00	9.31	2.00	109	1.8	11.7
Bendix Aviation	17.83	33.32	15.35	100	4.10	1.50	5.61	2.00	56	3.6	9.7
Bethlehem Steel	57.39	105.97	54.16	500	13.30	4.00	13.18	5.75	122	4.7	9.2
Boeing Aircraft	14.27	50.62[1]	33.72	59[1]	6.26	1.75	11.39	2.00	80	2.5	7.0
Borg-Warner	10.04	24.16	43.60	108	3.26	1.67	3.27	1.67	40	4.1	12.2
Caterpillar Tractor	16.93	37.38	17.63	105	4.84	2.50	5.83	2.00	89	2.2	15.2
Chrysler	32.51	67.39	31.47	206	8.59	6.00	2.13	4.50	68	6.6	31.8
Coca-Cola	28.46	38.45[1]	17.90	89[1]	6.60	5.00	6.08	5.00	116	4.3	19.0
Continental Can	36.39	53.79[1]	20.90	82	4.29	2.40	5.52	2.70	79	3.4	14.3
Corn Products	31.10	44.76[1]	17.99	33[1]	5.42	3.60	5.40[2]	3.85	84	4.5	15.5
Corning Glass	3.31	22.70[1]	15.10	31[1]	1.86	1.20	2.59	1.20	55	2.1	21.2
Crown Zellerbach	6.15	27.29	31.43	99	3.52	1.65	3.48	1.95	65	3.0	18.6
Deere & Co.	20.54	41.13	21.29	291	3.37	1.75	2.76	1.50	33	4.5	11.9
Douglas Aircraft	18.71	32.76	12.32	71	5.72	2.17	9.80	4.32	77	5.6	7.8
Dow Chemical	3.66	13.35	6.85	150	1.58	1.00	1.42	1.00	45	2.2	31.6
Du Pont	14.28	29.14	9.42	614	4.94	3.80	7.33	5.50	165	3.3	22.5
Eastman Kodak	13.28	23.75[1]	14.29	185	2.86	1.80[6]	3.99	2.00	69	2.8	17.2
General Electric	4.98	11.46[1]	5.70	370[1]	1.92	1.33	2.46	1.47	49	3.0	19.9
General Foods	20.52	33.60[1]	14.74	177[1]	4.66	2.65	5.00[2]	2.75	76	3.6	15.2
General Motors	12.25	34.06	19.72	1.350	6.69	4.00	9.06	5.00	92	5.4	10.1
Goodrich (B. F.)	13.34	36.21	20.15	225	4.08	1.37½	4.40	1.60	63	2.5	14.3
Goodyear Tire & Rub.	18.15	34.84	21.85	362	5.14	1.50[3]	5.04	1.62½	55	3.0	10.9
Gulf Oil	26.84	49.56[1]	35.29	424[1]	7.13	2.00[3]	6.75[2]	2.00[3]	62	3.2	9.1
Ingersoll-Rand	7.33	16.79[1]	11.12	92	3.56	2.33	3.50[2]	2.50	54	4.6	15.4
Inland Steel	27.49	55.29	29.47	158	6.90	3.50	7.92	3.75	69	5.4	8.7
International Harvester	32.15	46.42	15.62	356	3.46	2.00	2.24	2.00	36	5.5	16.0
International Nickel	16.32	22.93[1]	8.65	190[1]	3.55	2.35	4.25[2]	2.00	61	3.2	14.3
International Paper	18.52	43.60	30.49	142	6.44	3.00	6.00[2]	3.00[3]	87	3.4	14.5
Johns-Manville	24.34	48.71	21.33	29	6.20	4.25	5.24	4.25	87	4.8	16.6
Kennecott Copper	39.41	58.95	18.69	269	8.20	6.00	7.20	6.00	102	5.8	14.1
Liggett & Myers Tob.	46.92	58.39	12.93	330	5.50	5.00	5.30	5.00	62	8.0	11.7
Monsanto Chemical	8.86	39.95[1]	17.58	109[1]	4.88	2.50	4.39	2.50	111	2.2	25.3

(d) Deficit (1) 1953. (2) Estimated. (3) Plus stock. (4) Jan. 1, 1948. (5) Since 1948. (6) Since 1950.

pects. Yield and the price-earnings ratio offer some indication of whether or not a stock is fairly valued or overvalued.

Analysis of investment portfolios is especially important now, because the market itself has undergone broad basic changes in the past 18 months which have brought about important changes in the prices of securities and the valuations placed on underlying factors. Price advances have been substantial and there is conclusive evidence that many issues are trading now on the basis of speculative appraisal which ignores the investment fundamentals of the stock.

An investor who buys stock for yield and long term appreciation can not afford to ignore the effect these erratic movements may have on his own portfolio for they present opportunities to make profit and reinvest funds in neglected situations, possessing new profit potentials. Analysis of an issue, for example, may have indicated that when it was selling at 50 a year ago it was "behind the market" in terms of yield and earnings as compared to others in the same industry. Since then, the stock may have caught the public's "fancy" and raced up to $100 a share. At this point the stock must be reconsidered as it may no longer be as attractive as similar but more conservatively priced issues. However, there is no reason to assume that simply because the shares have enjoyed a steep price advance, they are "overvalued." At $100 a share, the stock may still be "cheap" in relation to its potential.

If one could easily determine the prospects for a particular company, investing would be simple. The purchaser would only have to relate his cost to anticipated earnings and dividends to come up with the answer to the question of whether or not to buy an issue. The problem, though, is much more difficult. Prospects can be determined only in a general manner for an industry or company and selection of a particular company to carry the investor's funds must be made by delving into analytical comparisons.

Basis of Comparison

Even within a particular industry, the outlook for two companies which produce identical products may be widely divergent. Reasons for the differences vary. One company may serve a better territory than the other or it may have a research and development department which is coming up with better results. The capital improvement program of a corporation, wisely timed, can give it an edge over competitors. This would result from lower cost operations permitted by the newer, more efficient plant and equipment. Timing of the expansion is important because machinery purchased too soon may have missed incorporation of important recent technological improvements while machinery purchased too late may have been the victim of rising prices.

A study of the pattern of reinvestment will often indicate clearly the philosophy and success, or lack of it, in a management plan for growth.

The steel industry represents a group which has improved its position with regard to stability of earnings as a result of heavy capital expenditure programs. Not many years ago, the entire industry was identified with "feast or famine" cyclical operations. In prosperous years, earnings would rise substantially but in between, sales would dip and profits disappear. Since the end of World War II, there has been a complete change. Because of relatively heavy capital outlays, the companies are now able to ride out the bumps in demand with a minimum of dislocation.

Steels in Stronger Position

The business decline last year provided the first real test of the steel industry's position and the companies came through with honors for stability of earnings. Despite a decline in output to only 72 per cent of capacity, net income for the leaders was higher than in 1953 when operations were at an average rate of 95 per cent of a smaller capacity. Lapse of the excess profits tax at the end of 1953 put a comfortable cushion under net income but the stepped up efficiency of installed equipment reduced overhead, even under adverse conditions, to a minimum. Even without the effect of excess profits tax end, the companies were able to show favorable operating results. *U. S. Steel,* for example, had a profit margin of 22.9 per cent in the relation of earnings before depreciation and taxes to sales last year. In 1953, when output was at a much higher rate, the same measurement indicated a profit margin of 22.5 per cent.

The recent popularity of the steel shares is a belated recognition of the industry's heavy reinvestment programs which added a considerable amount of new, efficient machinery. U. S. Steel book value, for example, has jumped from $47.33 a share at the end of 1949 to $79.20 a share at the end of last year. *Bethlehem Steel,* similarly, shows a gain in book value from $57.39 a share at the end of 1946 to $105.97 a share at the close of last year. Certainly not all equipment in operation is the latest and most efficient. But the added capacity gives the companies considerable flexibility. During the prosperous years, all available capacity is utilized. When business slows down, the companies are able to retire their marginal facilities which produce steel but relatively little profit.

This excess capacity acts like a reserve which helps the companies meet peak demands but can be easily abandoned when not required. Investigation of steel company balance sheets would indicate the gains in plant and equipment but probably would not indicate the important extent to which retained earnings were used to finance the industry's progress. Retained earnings, like net income, are considerably understated for the steel producers because of high depreciation charges resulting from accelerated amortization of the gigantic capital outlays.

Nevertheless, retained earnings often provide a clue to the value of the companies which is easily overlooked. A company that is reinvesting earnings heavily instead of declaring large cash dividends is generally building up a backlog of additional earnings power that will become evident in subsequent years.

In the meantime, the investor who is aware of this development has an opportunity to take a position in the issue while it is still reasonably priced. Market value is often depressed for a time because the relatively small (*Please turn to page* 54)

Vital Statistics on 75 Leading Stocks—(Continued)

INDUSTRIALS *(Continued)*	Book Value 1946	Book Value 1954	Retained Earnings Per Share 1946 to 1954	Working Capital 1954 (Mil.)	1953 Net Per Share	1953 Div. Per Share	1954 Net per Share	1954 Div. per Share	Recent Price	Div. Yield	Price-Times Earnings Ratio 1954
Montgomery Ward	$ 51.47	$ 92.37[1]	$43.07	$572[1]	$ 6.12	$3.00	$5.15[2]	$3.50	77	4.5%	14.9
National Biscuit	14.65	21.07[1]	8.50	51[1]	2.61	2.00	2.85	2.00	43	4.6	15.1
National Lead	7.21	14.58[1]	6.91	91[1]	2.54	1.75	3.85	2.10	58	3.6	15.0
Phillips Petroleum	25.88	45.42[1]	23.44	151[1]	5.25	2.60	5.20[2]	2.60	75	3.4	14.4
Proctor & Gamble	18.77	37.33	18.18	147	4.35	2.60	5.42	3.45	96	4.6	17.7
Radio Corp. of America	.76	10.12[1]	10.02	220[1]	2.27	1.00	2.66	1.20	41	2.9	15.4
Republic Steel	45.87	77.41[1]	36.48	192[1]	9.25	4.12	7.10	4.87½	82	5.9	11.5
Sears Roebuck	14.36	35.90[1]	22.52	7.67[1]	4.87	2.75	5.10[2]	3.00	80	3.7	15.6
Socony-Vacuum	28.61	47.76[1]	23.18	4.77[1]	5.35	2.25	5.15	2.25	53	4.2	10.2
Standard Oil N. J.	31.02	57.00[1]	35.14	1.339[1]	9.13	4.50	9.55[2]	4.55	110	4.1	11.5
Texas Co.	29.69	50.91[1]	28.30	484[1]	7.01	3.40	7.50[2]	3.75	90	4.1	12.0
Texas Gulf Sulphur	6.34	8.95	5.79	55	2.45	1.66	3.05	1.83	38	4.7	12.4
Union Carbide & Carbon	12.71	23.30	11.53	396	3.55	2.50	3.10	2.50	82	3.2	26.4
U. S. Gypsum	46.81	111.91	57.02	91	11.88	7.00	19.89	10.00	220	4.5	11.0
U. S. Rubber	17.15	34.30	18.84	232	5.19	2.00	4.29	2.00	40	5.0	9.3
U. S. Steel	47.33	76.39[1]	25.29	721	7.54	3.00	6.45	3.00	76	3.9	11.7
Westinghouse Electric	24.59	44.34	20.88	692	4.53	2.00	5.06	2.50	76	3.2	15.0
RAILROADS											
Atchison, Topeka & S. Fe	158.00	210.53[1]	65.16	102	14.62	5.00	12.35	7.00	131	5.3	10.5
Atlantic Coast Line	99.58	122.00	23.66	23	4.86	2.00	4.75	2.00	53	4.7	11.1
Chesapeake & Ohio	45.83	58.53	13.76	40	6.05	3.00	5.01	3.00	44	6.8	8.7
Chicago, R. I. & Pacific	137.12[4]	188.64[1]	46.33[5]	26	16.07	4.50	10.96	5.00	89	5.6	8.1
Great Northern Rwy.	78.04	95.37[1]	20.46	58	4.71	2.00	4.21	2.10	38	5.5	9.0
Illinois Central	92.57	139.94	31.76[6]	37	9.30	2.25	7.68	3.12	59	5.2	7.5
Louisville & Nashville	101.73	137.73	38.00	62	13.10	5.00	8.09	5.00	82	6.0	10.1
Southern Pacific	86.24	82.02[1]	38.02	101	6.40	3.00	4.90	3.00	54	5.5	11.0
Southern Railway	93.18	116.91[1]	41.15	63	11.63	2.50	8.96	3.50	84	4.1	9.3
Union Pacific	134.20	207.49[1]	61.86	93	14.95	6.00	14.76	6.00	149	4.0	10.0
UTILITIES											
American Gas & Elec.	10.70	20.36[1]	9.56	5[1]	2.41	1.60	2.52	1.68	41	4.0	16.2
American Tel. & Tel.	133.40	146.62	11.65	266	11.32	9.00	11.42	9.00	176	5.1	15.4
Cleveland Elec. Illum.	17.16	37.02[1]	8.86	1	4.07	2.60	3.86	2.60	68	3.8	17.6
Commonwealth Edison	24.34	31.79[1]	4.70	11[1]	2.38	1.80	2.70[2]	1.80[3]	38	4.7	14.0
Consol. Edison, N. Y.	40.89	41.62[1]	5.14	18[1]	2.94	2.30	2.98	2.40	46	5.2	15.4
Detroit Edison	14.88	26.09	4.27	6	1.92	1.50	2.05	1.60	35	4.5	17.0
Niagara Mohawk Power	11,64[5]	19.46	2.18[6]	10	2.03	1.60	2.11	1.60	30	5.3	14.2
Pacific Gas & Electric	13.25	32.15	5.61	(d)77	2.82	2.05	2.88	2.20	45	4.8	15.6
Philadelphia Electric	13.49	22.52	5.58	23	2.36	1.55	2.25	1.75	38	4.6	16.8
Southern Calif. Edison	11.89	34.67	7.79	2	2.64	2.00	3.02	2.00	47	4.2	15.5

(d) Deficit
(1) 1953.
(2) Estimated.
(3) Plus stock.
(4) Jan. 1, 1948.
(5) Since 1948.
(6) Since 1950.

—A NEW POINT ON TARIFF-MAKING—

By "VERITAS"

WASHINGTON SEES:

Unless agreements are reached to mark out specific approach routes, there is danger that the good intentions of the Eisenhower Administration, to make a non-punitive analysis of the composition of monopoly, will not be realized. There are too many well-meaning "reformers" blurring the complete picture by centering focus on but one, or a few, of the components.

The Brownell Committee has taken the evidence gathered in predecessor studies and added new material. But it still totals to an enigma; how to differentiate between dangerous monopoly, and healthy big business; where mass business method ceases to provide the benefits of volume operation, production and management, and starts the odorous restraints which have been the subjects of attack since the Sherman Act went on the books back in 1890.

Since the days of Theodore Roosevelt, both political parties have used trust-busting proclamations as vote getters. The GOP, the recognized party of the businessman, has been under compulsion to tread lightly lest its attempt to save the good while rooting out the evil be construed as a protective cloak over business, good and bad. The democrats have found that free-swinging attack does their cause no harm. While the party leaders probably are just as anxious as are the republicans to write definitions, build precedents, they are aware that a degree of recklessness can be indulged. And with a score of bills already introduced (many with no likelihood of passage) they find readily available hooks to which partisan critiques of business may be attacked.

SECY. DULLES succinctly fixed the future of the Yalta Report—"it will be discussed for ages." And that discussion very likely will veer little from its present course. Some of the publicists who have been decrying loudest against the release are the leaders in campaigns to force an end to executive sessions on Capitol Hill, to censorship of public documents, and to infringement of press freedom. Naturally no two situations are precisely alike; but inconsistency is expected in politically-loaded situations as, of course, this one is.

REVIEW of Federal Government's experience with less than one year of insurance business affiliation brings out interesting facts: 1.8 million government workers, 90 per cent of the total, are insured under the system; 162 private companies, in 36 states, are participating in the Federal program, and the "Big Five" companies have been allocated only 30 per cent of the business; 2226 death claims have been paid amounting to \$10.8 million; disability claims totaling \$874,000 have been settled, and \$15 in beneficiary claims are being processed.

LAWYERS believe suit brought by the Morgantown Glassware Guild to determine constitutionality of the Trade Agreeements Act and GATT (General Agreements on Tariff and Trade) could give business and industry a ruder shock than that which followed the "sick chicken" case which ruled NRA illegal. Plaintiffs claim congress has no constitutional right to delegate its tariff-making powers to the President under the trade treaty law, and that GATT is an even more flagrant attempt to transfer authority. It's a legal point never before raised.

ASSURANCE that revision of the Taft-Hartley Act will remain in the "active" file of Labor objectives is given by a lobby of congress members conducted by the Building Trades Department of AFL. There is no prospect of an overhaul, and the labor groups know it. The thinly disguised purpose of the outward attempt to have the labor-management act written off the books is to afford a basis for compromise:—end state authority to pass right-to-work laws. That, too, will fail.

As We Go To Press

The race is on to decide which party will get the most political capital out of the hassle over immediate cuts in federal income taxes on individuals. At this point it's hard to say which has profited most: the republicans and conservative democrats (all of them from states where the election outcome scarcely is in doubt), or the northern "city democrats" who can turn even an unsuccessful try into campaign manna. By the time the next national election rolls around, the tax cut may be a reality and all the hulabaloo of this year forgotten; but if there is no relief in 1956, an issue is made to order this far in advance.

The veteran politicians in the ranks of the democrats realize that they have inflated the issue to the full extent of its possibilities, and they're satisfied. their party is credited with "a good try" by those who failed to see the suggested $20 cut in the light of its long-range effect on the federal economy. And they realize that the voters are short-sighted: if they were given what appears to be a tax cut now, they'd be beefing around election day because no additional slashes were in sight. Republican politicians think they have a double-barrel point: they saved the country from a fiscal action which at best was an illusory relief, and prevented an inflationary step. And they will be able to deliver on their promise to cut taxes in 1956 when, as they have repeatedly said, the climate will be favorable.

One of the remaining mysteries is how the Democratic Policy Committee sold Speaker Sam Rayburn on the tax idea in the first place. Ordinarily he is in the top rank of careful fiscal planners. (Of course a companion mystery is who talked Ike into lambasting Sam when his advisers were able to tell him the tax cut didn't stand a chance.) The Speaker was aware of the budgetary unbalance and the uncertainty of tax and cost items for next year. But the republicans won a diluted victory, politically. They haven't produced any substantial basis for their belief that uncertainties will be cleared by next year and now have about 12 months within which to deliver on their implied promise to straighten out the budget and improve the debt position.

The democrats have found their "whipping boy" in the ranks of the opposition and from this point on, until a better target comes into view, Treasury Secretary George Humphrey is to be the goat. Several forays featuring direct hits against President Eisenhower have backfired and the effort now will be to discredit those about him. National Chairman Paul Butler has told his democratic straw bosses to spread the idea that the electorate will separately consider Eisenhower the military genius, and Eisenhower the politician, in 1956 and that "Ike can't be re-elected." Butler naturally hopes General Eisenhower won't run again and believes the attack should be levelled against President Eisenhower. Humphrey is marked by the federal $ sign which, the demmie chairman believes, makes him a good target.

They're calling Humphrey "Mr. Trickle Down," and if the name sticks he'll be the symbol of a tax philosophy pictured as one holding out to medium- and low-income groups the suggestion "if you wait long and patiently enough, tax relief will get to you." In the first year of the Ike administration, the democrats had Agriculture Secretary Ezra Taft Benson pegged as the whipping boy. He turned out to be the strong man of the Eisenhower team; the flexible supports program which was counted on to kill him off politically, actually saved the GOP from rout in last November's election: the farm states came through for the republicans.

In Humphrey, the democrats will find a worthy foe. He meets all comers before congressional groups, at press conferences, and in aired "talent contests" and gives no quarter. He is not of the Benson temperament, and if his foes want controversy he's happy to be a White House lightning rod. But the democrats have an organized attack planned on these bases: Humphrey, not Defense Secretary Charles E. Wilson, is responsible for the cuts in the defense budget. Humphrey junked the Marshall Plan for Asia. Humphrey is the spokesman of big business in the President's Cabinet. Humphrey has Ike's ear; makes the ammunition fired through many Departmental guns.

A revolutionary change in the quasi-judicial federal setup is in contemplation. It involves the creation of what might be termed a business-industry court and it would hear and dispose of cases now handled by such agencies as the Interstate Commerce Commission, the Federal Communications Commission, Securities Exchange Commission, Federal Power Commission, and many others. Under the existing system, commissioners sit as judges in Washington--based tribunals which have the capacity to cost business more, and wreak more lasting damage upon them than the regularly constituted courts. The judges are not always lawyers; many of them are lame duck politicians who have been given soft berths. And there's no uniformity of procedure, no accepted precedents of administrative law. The Hoover Commisssion is expected to recommend adoption of this idea to wipe out the existing legalistic hodgepodge.

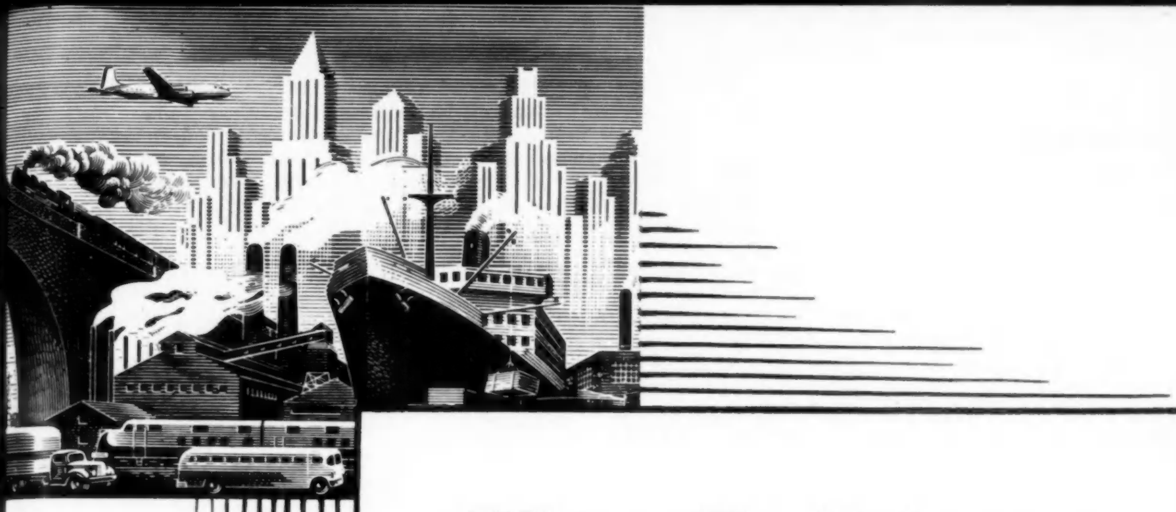
In the process of surveying federal procedures and personnel, the Commission appears to have come to the conclusion that the method of selecting lawyers is far from satisfactory. The study has suggested (and it will be recommended) that the Justice Department appoint a board of legal examiners to recruit and hire attorneys for all federal agencies except the Defense Department. Another action which could be the first step toward the business-industry court, if that idea strikes congress as too revolutionary for accomplishment in one stroke, proposed that hearing examiners be assigned from a "pool" and not attached to a single agency. They would be serving in the nature of judges on the circuit, taking cases as they arise. An independent office, headed by a chief examiner, would be created. Lawyers would bring judicial experience to the job, not obtain it on the job.

Postal employees in their annual quest for pay raise have had the "fifty-nine cent dollar" argument thrown back at them. The clerks and carriers have been demanding that their paychecks be considered in the light of the admitted fact that the dollar today does not bring as much value as it did years ago. The pressure of 500,000 payrollers and their families will force boosts out of congressional committees but they'll be told: Government records show that congress has voted postal employees pay raises since 1945 that raised the average postal salary by 69.3 per cent. And the classified civilian workers in other federal agencies haven't done bad in the same period: 55.1 per cent more than a decade ago. All of which offsets, with something to spare, the 41 per cent cut in the dollar on which so much reliance is placed by the postal lobbyists.

Former President Hoover and his government organization commissioners have been so relentless in pointing out flaws in federal administration methods that have been used in the post-Hoover presidencies that a reaction of resentment was bound to come. And it definitely is on its way. The conservatism which marked the Administration of H.H. clashes with the money-lending activities which reached heights in the FDR terms and haven't slowed appreciably in the Truman and Eisenhower regimes. Naturally Hoover doesn't like the policy and he said so in his Commission report on the subject. But the report, it now appears, brought important dissents from his colleagues and ran into even greater protest on Capitol Hill. Some of the Commission reports have been criticized and accepted; this one, it seems likely, will be criticized and rejected.

Rep. Chet Holafield, a democrat and one of the congressional appointees to the Hoover Commission, blasted the lending agency survey as faulty in concept and method. Holafield is a democrat, but Attorney General Herbert Brownell, Jr., and Mobilization Director Arthur S. Flemming were just as critical. Joining them are two highly-respected democrats, Joseph P. Kennedy, who formerly headed SEC and the U. S. Maritime Commission and served as U. S. Ambassador to London, and James A. Farley, former Postmaster General. Friends of Hoover are putting down the report as the product of unfortunate academic exercise, which strays too far from reality and, they say, hasn't an outside chance of congressional indorsement.

Senator George, in private conversations, expressed deep dissatisfaction with the political overtones of the release of the Yalta papers. The Senator feels that he has been let down by Dulles and Dulles' associates, particularly since he has given so freely of his support to the Administration on the Formosa resolution and on taxes. Dulles probably is embarrassed by the entire proceeding but was boxed in by the demands of Senator Knowland and the latter's sympathizers in the Senate. It all goes to show that the liason in Washington could be improved, which, to say the least is the understatement of the year.



Where To Reinvest Your Funds

By GEORGE L. MERTON

It may be that one of the underlying causes of recent stock market strength is the reluctance of investors to part with any of their holdings and thus take profits which would be subject to the capital gains tax.

This is a plausible and quite generally accepted theory. Probably equally accurate, however, is investor evaluation of sound, dividend-paying common stocks and the fact that these investors, primarily interested in a satisfactory and dependable income return, are loathe to disturb their investment portfolios. To do so creates the problem of how to re-employ funds thus released to give them an equally satisfactory income return.

Not all investors, of course, are in such an enviable position. There are those who, for one reason or other, have sold some of their stocks and are now confronted with the task of selecting good-grade dividend-paying equities yielding a satisfactory return. This is the same problem facing those who have been out of the market, or who have had holdings of bonds or preferred stocks suddenly called for redemption, or for whatever reason, now have funds that must be put to work to earn a higher rate of return than is possible from short term government issues or the best grade preferred stocks.

Investors with a current problem of choosing equities as media for investment funds will undoubtedly find the following list of suggestions helpful. We have selected 10 issues after careful analysis and deliberation, giving the greatest weight to dividend dependability and yet at the same time weighing each issue for its potentials of price appreciation over the long-term. In our opinion, these selected issues can be included in any "dollar averaging" program. There follows herewith some pertinent comment and facts on each issue in the group:

CENTRAL HUDSON GAS & ELECTRIC CORP., serves the rapidly growing—industrial and residential—Central Hudson River Valley area with electricity and purchased natural gas to a number of communities in an area of approximately 2,500 square miles.

Operating revenues have moved steadily upward in each of the last eight years. For the 12 months to December 31, 1954, electric revenues of $18.9 million and gas revenues of $4.1 million, combined to establish a new record high totaling slightly in excess of $23 million. This represented a gain of 8% over 1953 and 88.8% greater than total revenues eight years earlier. Over the same years, net income has taken a sharper upward course. Last year, net income applicable to the common stock increased to $2.4 million, up by 22% from 1953, and approximately three times the $827,274 earned for the common in 1947. Net income for the common stock in 1954 was equal to 94 cents a share on 2,633,956 shares outstanding compared with 90 cents a share for 1953 when there were outstanding at the end of that period 2,259,642 shares, the share increase reflecting the conversion last year of more than two-thirds of $6 million principal amount of 3% debentures into common stock.

Continued normal growth of the company's territory should further expand both gas and electric revenues. The rate of increase in net income should be aided by Central Hudson's program, now practically completed, which provides it with new generating stations having kilowatt capacity sufficient to produce 97% of power requirements. This is in contrast to only four years ago when about 89% of requirements were being purchased from other electric utility companies.

Central Hudson, in its present corporate form has paid dividends in each of the last 28 years. Cur-

rently, quarterly payments are at an annual rate of 76 cents a share, yielding at present market price of the stock around 16, 4.7%.

NATIONAL DAIRY PRODUCTS CORP., dealing in more than 150 dairy and allied products, is the leader in its field. Since formation in 1923, it has constantly broadened its list of varied foods and accessories which are marketed under such famous brands as "Sealtest", "Kraft", "Breakstone's", "Breyers", and "Deerfoot Farms", serving a market comprising the entire population of this country, and additional millions in Canada, and other countries of the free world. Its record over more than a quarter of a century is one of profitable operations in every year. Although dollar sales volume in 1954, partly as a result of lower prices, was down from 1953 peak of $1,232 million, 1954 net income reached a new peak, estimated at $2.75 a share. This compares with $2.31 shown for the previous year with the gain reflecting, in part, benefit derived through expiration of the excess profits tax, and increased profit margins made possible by use of new equipment and improved manufacturing and processing methods. The outlook for National Dairy is for continued growth, not spectacular, but consistent with the expansion of population, and the development of new and improved dairy and allied products. These prospects offer appreciation possibilities over the long-term on an equity affording a reliable return which is currently on an annual basis, payable quarterly, of $1.60 a share. At the present price of the stock around 38½, this rate of dividend yields 4.1%.

REYNOLDS TOBACCO CO., in 1954 had the most profitable year in its 55-year history. Although net sales of $814.2 million were down from 1953 dollar volume of $876.1 million, largely as a result of unfavorable and unsupported statements as to the ill-effects of cigarette smoking, net earnings last year of $44.8 million were equal to $4.19 a share for the combined 10 million shares of common stocks. This showing compares with 1953 net earnings of $34.1 million, or $3.12 per common share, and surpassed 1949, the previous best year. In the latter period, net sales amounted to $746.3 million and net earnings were equal to $3.75 a share. An outstanding feature in Reynold's 1954 showing was its ability, notwithstanding the drop in net sales, to increase pre-tax income to an all-time peak at $103.3 million from $102.8 million for 1953 when net sales amounted to $876.1 million and from $95.5 million for 1952 on net sales of $881.4 million. Net earnings last year, equal to 5.51% of net sales, were up from 3.90% for 1953, the increase partly reflecting relief from the burdensome excess profits tax which during the years it was in effect drained substantial sums from Reynold's earnings. In 1953, EPT payment by the company was slightly more than $12 million. That sum was approximately $1.20 per share of common stock.

While it is rather early in the year to attempt an estimate of Reynold's 1955 net earnings, the outlook appears to justify expectations that results should duplicate or possibly exceed the 1954 showing. Supporting this outlook is the continued popularity of the company's "Camel" cigarette, the increasing sales of "Cavalier", the king-size cigarette and the relatively new "Winston" filter-tip which achieved nation-wide distribution only last September and is already rated among the biggest sellers in the filter-tip market. Reflecting this confidence has been Reynold's action in 1954 in increasing the rate of dividend on the common stock to $2.40 annually from $2 a year paid previously. The Class B common stock, currently selling at 40, yields a return of 6.0%.

PHILADELPHIA ELECTRIC CO., serving southeastern Pennsylvania and northern Maryland, including Greater Philadelphia and the fast growing Delaware Valley, with electricity and in some sections with gas and steam, has had an uninterrupted increase in operating revenues over the last 17 years. Last year, operating revenues reached an all-time high of $196.3 million, of which $164.3 million was accounted for by sale of electricity. This latter figure represented an increase of more than $5 million over the previous year, reflecting continued growth in residential and commercial expansion, along with increased industrial demands in the final quarter of the year. Gas sales, also, increased to $27.9 million, up 15.6%, or $3.7 million from 1953 gas revenue of $24.1 million. Total 1954 operating revenues exceed those for the previous year by $9.3 million.

Net income last year also established a new record high at $30.8 million. This was $1,109,841 greater than the $29.7 million reported for 1953, and amounted to $2.25 a share on the amount of common stock outstanding at the end of 1954, compared with $2.36 a share on the same basis at the end of the previous year. The increased common capitalization was brought about by sale of additional shares, the proceeds of which supplemented retained earnings and other internal funds for new and expanded generating stations and other facilities involving expenditures last year of $66.5 million. Since 1945, new construction has amounted to $453 million in order to keep pace with growth in demand for services and at the same time increase operating efficiency. Present indications are that expenditures during the next five years will exceed $300 million to enable Philadelphia Electric to supply increased needs arising from the continued residential and industrial development in the Delaware Valley.

The company and its predecessors have paid dividends on the common stock for more than half a century. In June of last year, the annual dividend rate was increased from $1.60 to $1.80. Payments on a quarterly basis of 45 cents a share yield 4.6% on the stock at current market price of 38½.

SAFEWAY STORES, INC., the second largest grocery chain, in 1954 for the fifth straight year, continued its favorable sales trend, dollar volume rising to $1,813 million. This was a gain of approximately $61.7 million over 1953, and $603 million greater than 1950 volume. Net income for 1954, however, was off from the previous year by $561,000 to $13.9 million, equal to $3.52 a share for the increased outstanding common stock. This compares with 1953 net equal to $3.68 a share on the same basis.

Safeway's steady growth is expected to be maintained in the current year. This is substantiated by better than an 8% gain in sales in the first eight weeks to last February 28, to $261.4 million from $241.8 million in the like period of 1954. Earnings trend is also expected to be upward, especially as

Safeway benefits increasingly from its program involving the erection of additional vast food distribution centers designed to serve retail units in the several operational zones more quickly and economically, thus increasing profit margins. Dividends on Safeway common stock have been paid without interruption for the last 29 years, the current rate of $2.40 annually being maintained since 1950. At current price of 44½ for the common stock this dividend returns a yield of 5.3%.

GREAT NORTHERN RAILWAY was presented in the March 5, 1955, issue of THE MAGAZINE as one of five stocks which on the basis of near-term and longer-range earnings should have an appeal to investors with funds available for equity investment. It was set forth at that time Great Northern, although in common with other rail transportation systems, experienced a drop in operating revenues last year, the decline in its case amounted to only 6.7% from previous year's volume, or to $250.2 million from $268 million. Because of the excellent physical condition of properties, the road was able to hold its transportation ratio to 33.4% last year as compared with 32.1% for 1953. Operating ratio of 75.4% increased by only 2.7% from the previous year and 1954 net income of $25.4 million, augmented by dividends and interest payments on its holdings of C. B. & Q. stock and obligations of the Spokane, Portland & Seattle Railway, was equal to $4.21 a share. This compares with 1953 net income of $29.9 million, or $4.92 a share.

Great Northern's main lines, serving the expanding Pacific Northwest, traverses a territory in which originates widely diversified freight traffic, with the road benefiting further from important traffic interchange with other carriers. Agricultural and industrial development in the territory promises a continued long-range uptrend in operating revenues and increasingly broader coverage for the current $2.20 annual dividend on the common shares, the road's only stock issue. At present price of 40 this dividend yields slightly in excess of 5.5%.

DUQUESNE LIGHT CO.'s common stock ranks as an investment-grade electric utility issue. Last year, net income of $15.8 million was at a new record high, and after preferred dividends, was equal to $2.26 a share for the common stock. This showing which compares with 1953 net income of $15.3 million, equal to $2.22 for the common after preferred dividend payments, was achieved despite the reduced rate of operation in the Pittsburgh area steel mills during the greater part of 1954. Offsetting this, however, were substantial gains in residential sales and the greater commercial demand with the result that while industrial revenue for the year declined about 12%, total revenues were only about 2% under those for the preceding year. Contributing to net income were the economies from a new 120,000 kilowatt generating unit which went into operation last September and the expiration of the excess profits tax which took about $400,000 out of 1953 earnings.

Indications are that 1955 operating revenues and net income will be in an uptrend, reflecting continued growth in residential and commercial electric sales and the increased production schedules of the steel industry operating in the company's territory. With the sale last January of 160,000 shares of preferred and 450,000 shares of common stocks, Duquesne is understood to have completed its financing of its expansion program for this year, and in addition expects that bank borrowings will be substantially less than in 1954. Part of Duquesne's plans for the immediate future involves operation of an atomic power generating plant for which ground was broken last September on a company-owned site about 25 miles northwest of Pittsburgh. This plant to cost approximately $45 million, about $5 million of which will be contributed by Duquesne, it is stated will be capable of generating a minimum of 60,000 kilowatts of electricity although the exact capacity is classified information.

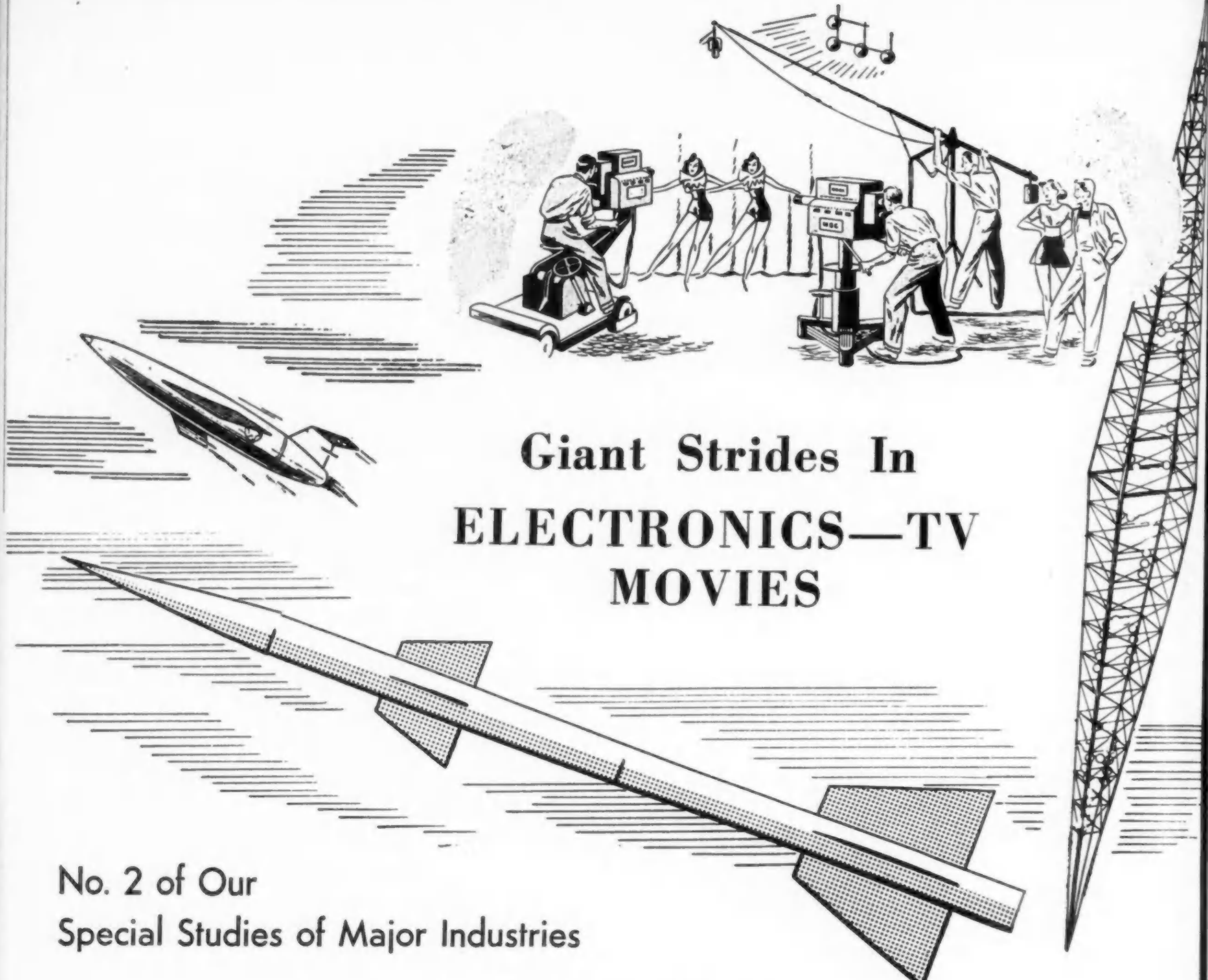
Three dividend increases since 1951 have brought the annual rate up to $1.80 a share, yielding 5.1% at current market price around 35¼.

FIRST NATIONAL STORES, INC., operates a chain of retail food markets throughout the New England states with approximately 20 units located in New York state outside the New York City area. Its postwar record has been an uninterrupted upturn in both sales and earnings as a result of its store modernization program, intensive developments of markets and a warehouse system able to serve many retail units by short truck hauls. Another important contributor to the comparatively high operating profit margin is First National's processing and selling many food lines under its own brand and the control of its own supply of dairy products. (*Please turn to page* 55)

10 *Stable Issues*

	Earnings per Share 1953	Div. per Share 1953	Earnings per Share 1954	Div. per Share 1954	Recent Price	Div. Yield	Price Range 1954-55
Central Hudson Gas & Elec.	$ .90	$ .70	$ .94	$ .76[6]	16	4.7%	16⅝-12¼
Curtiss-Wright "A"	11.96	2.00	20.32	2.00	32	6.2	35⅜-25
Dow Chemical	1.42[1]	1.00[2]	1.44[3]	1.00	43⅛	2.3	49¼-33⅜
Duquesne Light	2.22	1.55	2.26	1.80[6]	35¼	5.1	37⅛-28¼
First National Stores	4.17[4]	2.00	4.90[5]	2.40[6]	53	4.5	62¼-49¼
Great Northern Ry.	4.92	2.00	4.21	2.20[6]	40	5.5	42⅝-27
National Dairy Products	2.31	1.50	2.75	1.60[6]	38½	4.1	41¾-35½
Philadelphia Electric	2.36	1.60	2.25	1.80	38½	4.6	40⅜-32¼
Reynolds Tobacco "B"	3.12	2.00	4.19	2.40	40	6.0	44¼-33⅝
Safeway Stores	3.68	2.40	3.52	2.40	44½	5.3	49¼-38¼

(1) Year ended 5/31/54.
(2) Plus 2½% in stock.
(3) Year ending 5/31/55 estimated.
(4) Year ended 3/31/54.
(5) Year ended 3/31/55 estimated.
(6) Latest indicated dividend.



Giant Strides In ELECTRONICS—TV MOVIES

No. 2 of Our Special Studies of Major Industries

By STANLEY DEVLIN

Ours has been called the electronic age—and not without reason. Vast strides in replacement of manpower with electrically generated motive power have been accomplished in the last generation. Natural scientists are credited with marvelous discoveries in making possible innumerable gadgets operated by electrical impulses. Too little credit has been accorded the consuming public. Actually, progress in electronics stems as much as anything from the realization by manufacturers that Mr. and Mrs. John Q. Public have the means as well as the desire to pay for convenience.

An urge to escape drudgery in the hope, an insatiable desire for diversified amusements and the necessity of adopting labor-saving devices to combat rising wage costs in the factory have combined to spur development of all manner of electrical equipment and appliances. Even in military weapons, the consuming public has played a vital role, for huge expenditures on modern aircraft and guided missiles could not have been provided in a democracy without turning to the public for the necessary resources. High taxes which are used to pour into armament and to stimulate research in electronics for improvements are made possible by a prosperous population which can shoulder the responsibility of maintaining a vigorous economy while carrying a heavy tax burden.

In this survey of several phases of electronics, comments will be presented on recent developments in important industries and these will be supplemented with a tabulation of relevant statistics together with capsule references to individual companies in three major groups—television, diversified electronics manufacturers and principal motion picture concerns.

Trend in TV

Growth in radio and television has been so dynamic and has exerted such a powerful influence on the nation's social habits that this group probably deserves a primary consideration even though the most dramatic and significant developments have been taking place in recent years in other fields. Reference is made, of course, to armaments, especially guided missiles. The aggressive search for a self-propelled machine capable of transporting a hydrogen warhead across thousands of miles of space undoubtedly is the dynamic force now driving scien-

Statistical Data on TV, Electronics and Movie Companies

(A) LEADING COMPANIES IN TELEVISION

	Earnings Per Share 1952	Earnings Per Share 1953	Earnings Per Share 1954	Dividends Per Share 1952	Dividends Per Share 1953	Dividends Per Share 1954	Recent Price	Div. Yield	Price Range 1954-1955
Admiral Corp.	$ 3.69	$ 3.48	$3.25[1]	$ 1.00	$1.00[3]	$1.00	27	3.7%	30¼- 18¼
Avco Mfg.	1.20	.34	.37	.60	.30	.10	6	1.6	7¼- 4⅝
Columbia Broadcast. "A"	2.75	3.80	4.85[1]	1.60	1.85	1.90[3]	86	2.2	94¼- 41⅝
Du Mont (Allen B.) Lab. "A"	.55	.60	3.17[2]	.25	—	—	15	—	17⅛- 9⅛
Magnavox Co.	1.82	2.93	2.77	1.50	1.50	1.50	27	5.5	32⅜- 16⅛
Motorola Co.	3.62	3.66	3.91	1.50	1.50	1.50	46	3.2	53⅜- 30¼
Philco Corp.	3.15	4.86	1.70	1.60	1.60[3]	1.60	36	4.4	40⅞- 28
Raytheon Mfg.	.76	1.53	1.39	—	—	[4]	21	—	24¼- 8½
Sylvania Electric Prod.	2.77	3.10	2.92	2.00	2.00[3]	2.00	42	4.7	48⅞- 31⅞
Zenith Radio	11.67	11.44	6.50[1]	3.00	3.00	3.00	95	3.1	102 - 63½

1—Estimated. 2—Includes $2.85 per share from sale of assets. 3—Plus stock. 4—10% stock.

(B) COMPANIES WITH IMPORTANT DIVERSIFICATION IN ELECTRONICS

	Earnings Per Share 1952	Earnings Per Share 1953	Earnings Per Share 1954	Dividends Per Share 1952	Dividends Per Share 1953	Dividends Per Share 1954	Recent Price	Div. Yield	Price Range 1954-1955
Burroughs Corp.	$ 1.58	$ 1.44	$1.56	$ .90	$ .80	$ .85	29	2.9%	31⅝- 15¼
General Electric	1.75	1.92	2.46	1.00	1.33	1.47	49	3.0	55¾- 37⅞
General Precision Equip.	1.88	5.09	6.49	1.00	1.00	1.90	58	3.2	65½- 25
International Bus. Mach.	7.29	8.53	11.35	3.20[2]	3.20[2]	3.80	373	1.0	398 -271
International Tel. & Tel.	3.09	3.12	3.00[1]	.80	1.00	1.00	25	4.0	28¼- 13⅞
Minneapolis-Honeywell Reg.	3.00	3.31	4.84	2.25	2.25	2.40	108	2.2	118 - 67
National Cash Register	1.56	1.71	1.94	3.00	3.00[2]	3.00	40	7.5	47 - 37
Radio Corp. of America	2.10	2.27	2.66	1.00	1.00	1.20	41	2.9	45¼- 22½
Remington Rand	2.71	2.32	3.00[1]	.75[2]	1.00	1.00	43	2.3	48⅜- 14¼
Underwood Corp.	5.00	1.13	1.66	4.00	2.25	1.25	34	3.6	38⅜- 27
Westinghouse Electric	4.23	4.53	5.06	2.00	2.00	2.50	76	3.2	83¼- 50⅛

1—Estimated. 2—Plus stock.

(C) LEADING MOVIE COMPANIES

	Earnings Per Share 1952	Earnings Per Share 1953	Earnings Per Share 1954	Dividends Per Share 1952	Dividends Per Share 1953	Dividends Per Share 1954	Recent Price	Div. Yield	Price Range 1954-1955
Loew's Inc.	$ .91	$ .85	$1.28	$ .97½	$ .80	$ .90	18	4.9%	22 - 13¼
Paramount Pictures	2.52	3.06	4.10	2.00	2.00	2.00	36	5.5	40⅜- 26⅛
RKO Pictures	(d) 2.60	(d) .95	(N.A.)	—	—	—	8	—	8⅞- 2⅞
20th Century-Fox Film	1.18	1.65	3.25[1]	.50	1.00	1.60	26	6.1	31⅝- 18¼
Universal Pictures	2.15	2.35	3.58	1.00	1.25	1.25	27	4.6	32¼- 18½
Warner Bros. Pictures	2.86	1.18	1.61	—	.90	1.20	19	6.3	21⅛- 13⅝

(N.A.)—Not available. (d)—(Deficit). 1—Estimated.

Leading Companies in Televison

Admiral Corp.: Diversification in several lines of household appliances adds to risks, but strength in TV should provide adequate coverage for dividends. (B)
Avco Manufacturing: Growing emphasis on household appliances, especially washers and refrigerators, may retard progress in TV. Radio is important asset. (C)
Columbia Broadcasting System "A": Strong growth trend in telecasting as well as in manufacturing activities expected to continue; higher dividend foreseen. (B)
DuMont (Allen B.) Laboratories "A": Scientific research is strong point of this leader in TV and may be merger candidate. Weak side is merchandising sets. (B)
Magnavox Co.: Aggressive management strengthening competitive position in other fields of electronics than TV. Emphasis on quality poses problem in sales growth. (B)
Motorola, Inc.: Good combination of scientific research and promotional sales effort credited with surge to high level in TV. Another sales gain indicated. (B)
Philco Corp.: Aggressive merchandising organization may enable company to overcome handicap of tough labor setup. Improvement in earnings seen this year. (B)
Raytheon Manufacturing: Growing participation in guided missile work and in other defense activities should offset adverse effect of keen competition in TV. (B)
Sylvania Electric Products: Despite keen competition in principal lines, such as tubes and flourescent lighting, continued progress in sales is foreseen. (A)
Zenith Radio: Vigorous promotion of new models expected to enlarge volume and improve margins. Potentialities seem large in eventual approval of subscription TV. (A)

Companies with Diversification in Electronics

Burroughs Corp.: Rapid development of electronic devices for improvement of office machines and aggressive sales promotion expected to boost sales and profits. (A)
General Electric: Some improvement in apparatus orders foreseen this year, along with gains in atomic power projects. Higher earnings and dividends in prospect. (A)
General Precision Equipment: Progress in development of electronic devices for military applications as well as for movies expected to enlarge sales this year. (B)
International Business Machines: Need for substitution of speedy machines for manual power in offices assures growth in this leader in electrical applications. (A)
International Tel. & Tel.: Further progress in earnings is anticipated as result of adoption of operating economies. Electronic appliances gaining acceptance. (B)
Minneapolis-Honeywell: Trend toward automation in factories and enlargement of market for household appliances points to expansion in sales of electronic controls. (A)
National Cash Register: Another manufacturer of business machines which has developed new electronic equipment. Higher dividend after split anticipated. (A)
Radio Corp. of America: Leader in all divisions of electronics equipment is expected to improve earnings in 1955. Expanding in various appliance lines. (A)
Remington Rand: Progress in electronic devices, especially digital and analog computers, broadening company's markets. Strong competitor in office machines. (B)
Underwood Corp.: Backwardness in turning to electronic applications in office machines retarded progress, but improvement over 1954 anticipated this year. (B)
Westinghouse Electric. Second in electrical equipment. Aggressive merchandising. Electronics and atomic research. Well-protected dividends. Investment quality plus growth prospects. (A)

Leading Motion Picture Companies

Loew's Inc.: Recovery in box office receipts contributing to upturn in earnings. Higher dividend possible. Separation of theatre and picture units awaited. (B)
Paramount Pictures: Recovery in picture rentals anticipated as box office receipts improve. Participation in many aspects of TV offers promise of gains. (B)
RKO Pictures: Disposal of picture producing facilities leaves company in strong cash positon, but ultimate action dissolution remains uncertain. (C)
20th Century-Fox: Wide acceptance of CinemaScope contributing to enlargement of box office receipts and prospect of improvement in earning power. (B)
Universal Pictures: Successful program of picture production strengthened competitive position. Eventual merger with Decca Records, parent unit, possible. (B)
Warner Bros. Pictures: Segregation of theatre operation leaves this picture producer and distributor in highly competitive field, where progress may be difficult. (C)

RATING: (A)—Sound commitment for long-term appreciation. (B)—Moderately attractive but more speculative than (A). (C)—Unattractive.
NOTE: New purchases should be correlated with market advices of A. T. Miller appearing in each issue.

Comprehensive Statistics Comparing the Position of

Figures are in million dollars, except where otherwise stated.	Allen B. Du Mont Laboratories	Int. Business Machines	Magnavox	Minneapolis-Honeywell Regulator	National Cash Register	Philco Corp.
CAPITALIZATION:						
Long Term Debt (Stated Value)	$ .7	$250.0	—	$ 35.0	$ 39.8	—
Preferred Stocks (Stated Value)	$ 2.4	—	—	—	—	$ 10.0
Number of Common Shares Outstanding (000)	2,361[1]	4.098	758	3,172	6,575	3,771
TOTAL CAPITALIZATION	$ 3.7	$400.9	$ .8	$ 39.7	$ 94.2	$ 21.3
INCOME ACCOUNT: For Fiscal Year Ended	1/2/55	12/31/54	6/30/54	12/31/54	12/31/54	12/31/54
Net Sales	$ 91.9	$461.3	$ 62.9	$229.4	$259.1	$349.2
Deprec. Depletion, Amort., etc.	$ 1.4	$ 71.5	$ 1.6	$ 5.1	$ 8.9	$ 3.6
Income Taxes	$ .8	$ 51.8	$ 3.2	$ 17.3	$ 15.5	$ 3.7
Interest Charges, etc.	$ .6	$ 7.2	$ .4	$ 1.0	$ 2.0	—
Balance for Common	$ .7	$46.5	$ 2.1	$ 15.3	$ 12.7	$ 5.6
Operating Margin	1.5%	22.3%	9.2%	14.6%	10.6%	2.7%
Net Profit Margin	.9%	10.9%	3.3	6.6%	4.9%	1.9%
Percent Earned on Invested Capital	4.5%	19.1%	18.2%	18.7%	13.7%	7.1%
Earned per Common Share *	$ 3.17[3]	$ 11.35	$ 2.77	$ 4.84	$ 1.94	$ 1.70
BALANCE SHEET: Fiscal Year Ended	1/2/55	12/31/54	6/30/54	12/31/54	12/31/54	12/31/54
Cash and Marketable Securities	$ 4.6	$ 71.6	$ 2.9	$ 20.7	$ 14.4	$ 19.3
Inventories, Net	$ 19.6	$ 24.7	$ 11.3	$ 59.8	$ 53.7	$ 50.3
Receivables, Net	$ 17.7	$55.2	$ 7.8	$ 30.4	$ 39.2	$ 51.9
Current Assets	$ 52.4	$151.6	$ 23.6	$111.5	$108.3	$122.8
Current Liabilities	$ 30.2	$ 64.8	$ 17.0	$ 28.7	$ 51.0	$ 69.7
Working Capital	$ 22.2	$ 86.8	$ 6.6	$ 82.8	$ 57.3	$ 53.1
Fixed Assets, Net	$ 10.1	$367.2	$ 4.7	$ 29.3	$ 48.9	$ 38.1
Total Assets	$ 63.2	$565.4	$ 28.5	$145.7	$183.4	$164.5
Cash Assets per Share	$ 1.96	$ 17.47	$ 3.81	$ 6.52	$ 2.19	$ 5.12
Current Ratio (C. A. to C. L.)	1.7	2.3	1.3	3.8	2.1	1.7
Inventories as Percent of Sales	21.4%	5.3%	18.1%	26.1%	20.7%	14.4%
Inventories as Percent of Current Assets	37.4%	16.3%	48.0%	53.8%	49.6%	40.9%
Total Surplus	$ 16.5	$ 92.4	$ 10.7	$ 77.1	$ 38.1	$ 73.5

(*) Data on dividend, current price of stock and yields in supplementary table on preceding page.

tific research in electronics. More on this interesting subject will be said later. First, let us review recent trends in radio and television as well as motion pictures, in which electronic devices are becoming increasingly important.

Television set manufacturers, most of whom are numbered among the leading producers of radios, enjoyed one of their best years in 1954 and appear headed for another eminently satisfactory twelve months in 1955. Retail TV sales last year are estimated to have established a record, although shipments by manufacturers to distributors and dealers approximating 7.2 million units fell slightly short of the 1950 record which approached 7.5 million sets. The explanation for retail volume in excess of factory sales is found in the fact that at the beginning of last year, sets in distribution channels had reached an unwieldy total of about 2.5 million. Sales to consumers for the year are estimated to have exceeded by at least half a million sets actual deliveries from factories.

Business this year has started more encouragingly than in 1954. Although it is too early to project a dependable forecast for the full year, since holiday business represents such an important proportion of the annual distribution, trade interests feel confident that sales in 1955 will compare favorably with last year's total. Optimism is based on the conviction that replacement business is gaining momentum—that is, the relegation of small-screen sets to the children's room or to the den and substitution of a new 21-inch model in the living room or play room. The time is fast approaching for a second set in every home.

Prospect for a high level of sales this year is encouraged also by abatement of interest in color TV as well as by further extension of telecasting and the addition of new channels. Diminishment of public clamor for color sets has caused some surprise, but is readily understandable to industry leaders. Although viewers would welcome varihued shows on their sets, they are not prepared to spend from $750 to $1,000 for a set that is capable of providing programs on only an occasional basis. In short, apathy may be explained by prohibitive prices and a scarcity of color telecasts. The fact that mod-

Leading TV & Electronic Companies

Radio Corp. of America	Raytheon Mfg.	Underwood Corp.	Westinghouse Electric
$150.0	$ 7.1	$ 9.5	$323.8
$ 14.5	$ 3.7	—	$ 50.0
14,031	2,176	746	16,332
$192.6	$ 21.7	$ 21.2	$577.9
12/31/54	5/31/54	12/31/54	12/31/54
$938.1	$177.1	$ 75.9	$1,631.0
$ 17.3	$ 2.5	$ 1.4	$ 37.7
$ 42.9	$ 6.0	$ 1.1	$ 78.6
$ 4.8	$ 1.1	$ .4	$ 11.1
$ 36.5	$ 3.3	$ 1.2	$ 82.6
6.1%	6.2%	2.4%	10.1%
4.3%	2.0%	1.6%	5.1%
17.3%[2]	10.0%	[3]3.3%	11.4%
$ 2.66	$ 1.53	$ 1.66	$ 5.06
12/31/54	5/31/54	12/31/54	12/31/54
$122.8	$ 12.7	$ 6.3	$344.4
$109.6	$ 45.8	$ 21.8	$420.3
$145.4	$ 21.3	$ 11.4	$213.1
$386.5	$ 79.9	$ 39.7	$918.4
$151.6	$ 50.5	$ 5.8	$226.3
$234.9	$ 29.4	$ 33.9	$692.1
$151.4	$ 12.4	$ 12.0	$306.4
$548.3	$ 93.6	$ 55.0	$1,329.1
$ 8.75	$ 5.87	$ 8.45	$ 21.08
2.5	1.5	6.8	4.0
11.6%	25.8%	28.7%	25.7%
28.3%	57.3%	55.0%	45.7%
$191.5	$ 20.5	$ 25.5	$485.3

(1) Combined 'A" & "B" common stock.
(2) Includes profit on sale of assets.
(3) Includes special credits.

rate priced color TV sets may be years away has broken down a reluctance on the public's part to purchase new monochrome sets now.

Radio and Household Appliances

The former rapid growth in radio has dwindled to a fairly stable level largely representing replacement business. Demand for clock radios, which enjoyed a vigorous upsurge for a couple of years, has slackened; but public interest is avid in new models offering unusual features. As an example, a tiny pocket-size portable radio powered by small batteries and equipped with transistors has been introduced to the retail market. It has met with such success that even at a price range of $39.95 to $49.95 dealers cannot obtain adequate supplies to meet the demand. As a consequence, all indications point to a brisk upturn in radio sales this year.

Electronic household appliances are enjoying brisk demand. Sales have been stimualted by continuation of residential construction at a record-breaking pace. Recovery of confidence in job security, together with wage increases lifting national income up another notch, has spurred retail sales. Producers report a decline in dealers' stocks and a welcome absence of excessive supplies in the hands of discount houses. Margins have been maintained at a more satisfactory figure than last year. Restyling of electric stoves, improvement of washing machines and refrigerators as well as more effective promotional efforts have contributed to an impressive come-back in this group of electrical goods.

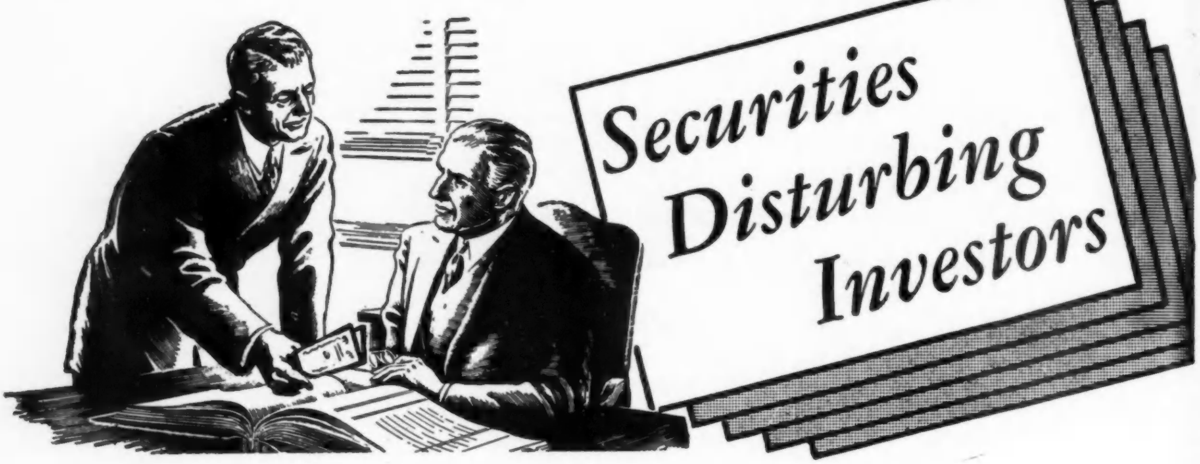
In heavier electrical apparatus required chiefly by electric light utilities sales have registered a downtrend for a year. Shipments have held up well on old contracts, but new orders have dwindled in reflecting completion of many projects initiated soon after Korean hostilities waned. The utility industry has virtually caught up with deferred construction needs and new orders now are geared to a normal growth. The need for industrial plants to place greater and greater dependence on power facilities as a substitution for manual labor means that consumption of electricity is likely to continue a steady climb, however, and apparatus business promises to bulk large in sales of leading producers of electronic devices.

Dependence on electrified equipment is expanding in offices as well as in factories. Accordingly, another important market is opening for electric typewriters and high-speed data-handling machines as well as computers. Automation in assembly line production is requiring a great variety of controls for electric current used in motivating equipment. Thousands of small electronic components are used in the so-called electric brains devoted to scientific problems. Electronic tape recorders and high-fidelity sets also are gaining wider acceptance. In fact, electronically taped radio programs have been adopted on a fairly large scale.

In the movie industry, new electronic techniques have been introduced to enable the motion picture theatres to compete with home television. CinemaScope employing a wide screen and amplified sound effects has become one of the leading innovations enabling film producers to present more appealing programs. Other wide-screen techniques employing various electronic equipment include VistaVision, Cinerama and the Todd A-O process. Which of the new entertainment versions will eventually capture the bulk of the business is uncertain at the moment, but it is apparent that only through development of electronically operated devices has the industry been able to strengthen its competition for the public's dollar. A newer factor spurring attendance has been the "drive-in" movie theatre. Hundreds of these establishments are being added yearly and they are becoming an important asset to the industry.

Military Use of Electronics

With all the extraordinary developments in many industries, it is safe to say that nowhere has greater progress in electronics taken place than in military applications. This has been made possible, it may be recalled by an earlier reference in this article, by channeling of large sums collected in personal income taxes to armament activities. Aggressive exploitation of electronic and nuclear potentialities began with our perfection of the atom bomb. Revelation of this devastating weapon spurred research throughout the world not only to duplicate our accomplishments but *(Please turn to page 56)*



Securities Disturbing Investors

By JOHN D. C. WELDON

At a time when many corporations are either paying substantial extra dividends or increasing regular periodic distributions on their stocks, and price movements of a great majority of issues have carried them to new high levels, it is not unreasonable for an owner of an equity apparently ostracized from the society of the elite to ask "what's wrong with the stock I hold?" Some of these laggard stocks are not only dormant marketwise but have gone contrary to the trend by losing ground marketwise, and cutting dividends, or omitting them altogether. In any case, such adverse developments are not conducive to creating a contented state of mind, automatically arousing the question of whether to continue to hold the stock, hoping for a turn in the companys fortunes, to make an additional commitment to average cost, or to get out of the stock, switching into what appears to be a more promising issue. Whatever form the question takes, it can only be answered by careful study of the conditions underlying the individual stocks which for one reason or another are disturbing investors who own them.

From stocks in this category, we have selected the following eight issues for analysis by our staff, and on which we present our comments which we believe will be of value to owners of these issues:

BALDWIN-LIMA-HAMILTON offers promise of coming out of the doldrums besetting the company through practically the first eight months of 1954 in which incoming orders and backlogs were in a continuous decline. This was not an extraordinary development considering it took place at a time when railway equipment business tapered off from previous years' high levels and demand dwindled for other capital goods. This downtrend was reversed in the latter part of the year, unfilled orders in the final quarter increasing by slightly more than $30 million. Indications are that 1955 first quarter new business has been flowing in at a faster tempo which leads to expectation that with a continuation of this trend, 1955 earnings should show a decided improvement over the 95 cents a share in net earnings Baldwin-Lima was able to report for all of 1954. The company, in keeping with its policy of exansion and diversifying, acquired last year Hydropress, Inc., an important manufacturer of rolling mill and hydraulic presses for the steel and other metal fabricating industries, with good growth prospects, especially in view of the increasing use of powder metal by various industries.

Considering the improved immediate prospects for Baldwin-Lima and its good longer-range outlook, the stock, although it lacks any marked speculative appeal, is worthy of being retained in present portfolios.

Beech-Nut Packing last year had record net sales of a little more than $93 million, up from $90.9 million in the previous year, but profits before Federal taxes declined to $5.9 million for 1954 from $7.6 million for 1953. Net income, helped by $528,776, equal to 35 cents a share, from refund of excess profits tax, was equal to $2.20 a share. This compares with 1953 net of $3.7 million, or $2.42 a share. Several adverse factors accounted for the poorer 1954 showing. Sharp fluctuations in the green coffee market created an unsatisfactory pricing situation for roasted coffee, while competition necessitated heavier expenditures for intensified promotional activity. At the same time, Beech-Nut added to its sales and promotional expenditures to expand and improve its already strong position in baby food and chewing gum markets, the favorable results of which are expected to be seen in improved 1955 operating results. It is also likely that the chemical division will contribute more importantly to net results in the current year through sales of new synthetic resins for certain industrial applications introduced during 1954.

The current 30-cent quarterly dividend, reduced from 40 cents in 1954, should be maintained. The stock, presently selling at 28, the low point in its 1954-55 price range, should be retained.

BIGELOW-SANFORD CARPET, bouyed by final

1954 quarter sales and earnings, anticipates increased sales volume and net earnings for the current year. During the first nine months to last September 30, sales, 11% under the corresponding period of the preceding year, resulted in a loss of \$869,000, but this was wiped out by fourth quarter sales increasing to \$20.4 million from \$16.2 million in the third quarter. Aiding in this better showing were price increases of from one to 6%, enabling Bigelow to close the year with net income of \$107,921. This amount, however, fell short by approximately \$64,000 in covering \$172,238 paid in dividends on the preferred stock. The net result of full year's operations was a deficit of 7 cents a share on the common.

Results for one quarter of any year, however, does not always indicate a trend, although there appears to be some basis for expecting carpet sales to be moderately higher this year and profit margins to widen slightly as a result of price increases put into effect in the latter part of 1954. In an effort to bring about a reduction in manufacturing overhead costs, Bigelow-Sanford now plans to vacate its Amsterdam plant, except for some non-carpet operations, consolidating all woven carpet manufacturing at the Thompsonville, Conn., plant. In anticipation of this move, reserves of approximately \$2.5 million have already been set up to cover costs. The consolidation, however, is not expected to be completed much before the 1955 final quarter, so it is not likely that any benefits from expected savings will be evident until some time in 1956.

Dividend resumption on the common stock does not appear to be a near-term possibility and the stock continues in a doubtful position.

BOHN ALUMINUM & BRASS, despite the upturn in output of cars by the automotive industry in the 1955 final quarter, failed to benefit by way of sales, its dollar volume for that period amounting to approximately \$12 million. This was below the \$12.8 million shown for the like 1953 period. This showing in the 1954 quarter was doubly disappointing considering the relatively high rate of activity in the aircraft, electric appliance and building industries to which Bohn supplies cast, forged and extruded parts. It is quite evident that profit margins, especially in the latter half of last year, were pared materially with the result that net earnings of 55 cents a share for the March quarter turned into a deficit of 66 cents a share for the full year. As a matter of fact, 1954 operating loss before Federal tax amounted to \$1.4 million, but this was offset by a tax credit of \$1,050,000, bringing the net loss down to about \$351,000.

Bohn is endeavoring to improve its position by developing an all-aluminum air conditioning condenser and an aluminum automotive radiator, as well as by the recent acquisition of Reo Motors which will put it into the truck manufacturing field. While 1955 operations may show some improvement, it would appear that management might prefer to postpone further dividend action until there is more concrete evidence of a restoration of earning power. In the meantime, the stock must be regarded as speculative and held only on that basis.

BRUNSWICK-BALKE-COLLENDER as a result of its entry into school furniture and gymnasium equipment fields, while still maintaining its position as a manufacturer of bowling alley and billiard equipment, appears to be producing results. School furniture sales in 1954, the first full years of production, were an important contributor to net sales of \$33.3 million, which with lower extraordinary expenses in connection with the diversification and expansion program, enabled Brunswick-Balke to report net earnings for the common stock equal to \$1.21 a share as compared with 32 cents a share for 1953.

Because of the need for cash to further minimize bank loans and to provide for other corporate purposes, it is not likely that common stock dividend policy this year will deviate much from that followed in 1954. The stock, however, while still speculative, is worth retaining on that basis.

S. S. KRESGE somewhat belatedly, perhaps, recognized the necessity of getting rid of some of its unattractive, older retail units and opening modern stores in well selected locations if it was to keep abreast of competitors and maintain its front rank position of long duration in the variety chain field. Considerable was accomplished along these lines last year, 22 older units being closed and 26 new stores, 21 of which were in subburban shopping centers, put into operation. (*Please turn to page* 59)

	1953 Net Per Share	1953 Div. Per Share	1954 Net Per Share	1954 Div. Per Share	Price Range 1954 - 55	Recent Price	Div. Yield
Baldwin-Lima-Hamilton	\$ 1.54	\$ .75	\$ .95	\$ .80	17½- 8⅜	15	5.3%
Beech-Nut Packing	2.42	1.60	2.20	1.50	35⅞-28	28	5.3
Bigelow-Sanford	3.32	—	(d) .07	—	16⅜- 9¾	14	—
Bohn-Alum. & Brass	3.02	1.10	(d) .66	.70	24⅜-17¼	21	3.3
Brunswick-Balke-Coll.	.32	.87½	1.21	.12½[1]	31⅜-13⅝	27	.4
Kresge (S. S.)	2.40	2.00	2.24	1.80	34¼-28½	30	6.0
Wesson Oil & Snowdrift	2.89	1.40	4.78	2.40	43½-24⅛	35	6.9
Westinghouse Air Brake	2.43	2.00	1.88	1.60	32⅝-22⅝	26	6.1

(d) Deficit.
(1) Plus stock.

Where Rail Recapitalization Will Increase EARNINGS—DIVIDENDS

By ROGER CARLESON

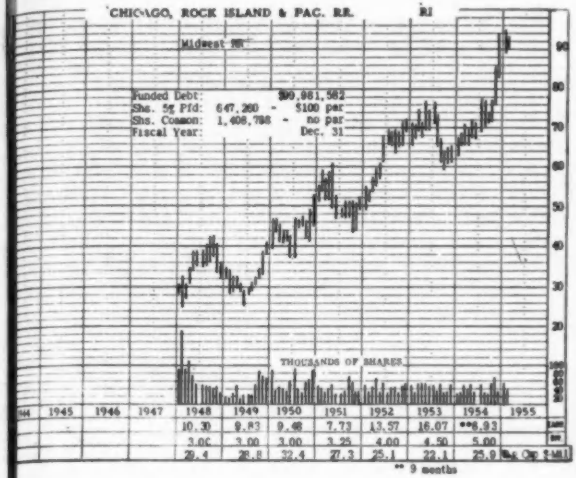
In recent months, a definite trend has developed among railroad companies to revamp their capital structures. A number of carriers have already taken steps in this direction and it is expected that other companies in the rail group, sooner or later, will follow the same trail.

Such action appears to be a logical sequence to the railroads' postwar modernization program. Through capital expenditures of approximately $10 billion during the last decade for dieselization, push-button freight yards, centralized traffic controls, communications, and other facilities, the roads have brought operating efficiency to a very high level and have effected substantial savings in operating costs.

With these achievements, the rails, in the last year or two, have been turning their attention to readjusting capitalizations, the basic incentives being the elimination of preferred stocks with high dividend rates and saving on income taxes by substituting new income bonds for the preferred stock issues. Such savings could be substantial inasmuch as interest paid on income debentures is deductible for income tax purposes and would augment the additional saving made possible by the debentures carrying, in most instances, a contingent interest rate, in some cases well under the rate of preferred dividend. Such savings, it is calculated, would not only provide sinking funds sufficient for the retirement of the bonds at mateurity but should redound. to the benefit of the common stock.

Last year, Illinois Central, Western Pacific, New York, Chicago & St. Louis (Nickel Plate), and Chicago & Eastern Illinois took definite action to replace their preferred stocks with new debenture issues either by direct exchange as in the case of the C & E I, or through the sale of the debentures, as was done by the Nickel Plate, the proceeds being used to retire the road's $6 preferred stock. Other railroads have progressed in plans of recapitalization or are expected to shortly announce action along these lines subject, of course, to ICC approval.

CHICAGO, ROCK ISLAND & PACIFIC is one of the most recent railroad companies to put forth a plan to redeem all of its convertible preferred stock, using for this purpose proceeds from sale of $65 million new 40-year income debentures. Within the last three years, Rock Island, through use of retained earnings, has reduced the outstanding $100 par 5% preferred from $70 million to $65 million, or 650,000 shares which are convertible into common stock on a share for share basis. If, however, as a result of the redemption call, all of the preferred is converted, none of the new debentures will be issued. At the present time the common, on an annual dividend basis of $5 a share, is selling in the market at 92, to yield a return of 5.4%. At this price, there is a differential of 12½ points between the common and the preferred, the latter selling around 104½, to yield 4.7% on the $5 dividend.



How much, if any, of the preferred will be converted cannot be estimated. Moreover, the amount of conversion will govern the amount of new debentures that will be issued, the company stipulating that the offering will be limited to 105% of the total amount of redeemed preferred. Whether or not Rock Island common stock would benefit from the proposal to eliminate the preferred depends on how much of the latter issue is converted. Should all, or a large percentage of the preferred be exchanged for common, the effect would be to dilute earnings on the increased number of outstanding shares of the latter issue. Last year, net earnings of the road, after preferred dividends, were equal to $10.25 a share of common stock. Assuming conversion of all the preferred, net earnings for the greater amount of common which would be outstanding would have amounted to, on the basis of 1954 net income, $9.10 a share.

On the other hand, elimination of Rock Island's preferred by redemption would enable the road to carry a substantial tax saving down to the common stock. Assuming that interest on the new debentures is fixed at 5%, the equivalent of the $5 preferred dividend, would permit treating yearly interest of approximately $3,250,000 on the $65 million of income debentures, if issued in that amount, as a deductible item for income tax purposes. This would represent a tax saving of approximately $1.6 million which means about $1.25 added to net income for the common stock. On this basis, actual 1954 net income of $10.23 a share applicable to the latter issue would have been increaased to approximately $11.48 a share.

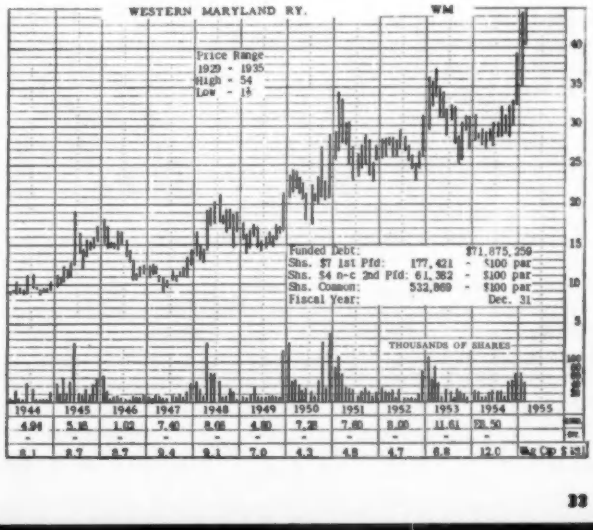
Although at the moment of writing, no official statement has been made, it is expected that upon completion of the recapitalization plan, thus eliminating all of the preferred stock, Rock Island's directors will give approval to splitting the common stock, possibly on a three-for-one basis. It is also believed that dividends on the new common will then be inaugurated at a $2 annual rate.

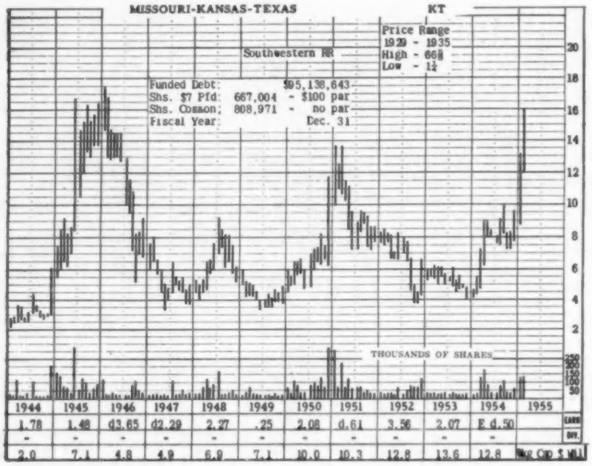
CHICAGO & EASTERN ILLINOIS initiated its plan to eliminate the outstanding class "A" stock which has preference over the common to the extent of $2 annual dividend several months ago. At that time, the road had outstanding 383,412 shares of "A" stock of $40 par value, or a total of $15,350,040. To accomplish its purpose, a new issue of 100-year 5% income debentures in the principal amount of $15,350,040 was created and offered in exchange on the basis of $40 principal amount of the bonds for each share of "A" stock outstanding.

Net earnings of the road last year applicable to all of the "A" stock then outstanding amounted to $6.61 a share. This was equivalent to 3.3 times interest requirements on the full amount of debentures had they been issued in place of the "A" shares. While the rate of interest payable, if earned, on the total debenture issue would be equal to that heretofore payable on the "A" stock, interest payments would be deductible for income tax purposes. This tax saving, it is estimated, would be equal to earnings of $1.00 a share on the common stock, bringing net income, on the basis of 1954 operations, to $4.56 a share, as against 1954 actual of $3.56, and 1953 net income of $3.81 a share, after funds in each instance. In the event all class "A" stock is exchanged, the C & E I would have outstanding only 409,640 shares of common stock. At present, dividends on Chicago & Eastern Illinois common are being paid quarterly at an annual rate of $1.00 a share. It appears reasonable to expect this rate to be at least moderately increased following the elimination of the majority, if not all, of the class "A" shares.

WESTERN MARYLAND RAILWAY, benefiting from complete dieselization of freight movements, mechanization of roadway maintenance, and other improvements, as long ago as March, 1953, turned its attention to modifying its capital stock structure. One of the principal objectives has been the elimination of dividend arrearages which at the time of filing the plan amounted to $126 a share on the $7 first preferred stock.

Under the recapitalization plan, approved by the Interstate Commerce Commission in February of this year, each share of the $7 preferred would be given two shares of a new $5 first preferred of $100 par value per share, and one-half share of new $4 convertible second preferred, of $100 par value. Each share of the latter class would be convertible into two shares of common. Owners of the current $4 second preferred would receive in exchange for their present holdings the new $4 convertible preferred which is precisely equivalent to a share for





share basis. In exchange for approximately 532,868 shares of $100 par value common stock the company would issue, share for share, new common of $10 par value.

Actually, the only change in the capital structure, outside of the new $10 par value common, would be the issuance of two shares of new $5 preferred for each share of $7 preferred now outstanding. If the plan, now subject to stockholders' approval, goes through, the revised capital structure would consist of approximately 354,840 share of $5 first preferred, 150,092 shares of $4 second preferred, and 532,868 shares of common. Conversion of the second preferred would result in bringing the outstanding common up to 833,052 shares.

If the plan, now subject to approval by Western Maryland's stockholders, is declared effective, first preferred dividend arrearages, reduced by 1953 payments totaling $15 a share and in 1954 by a total of $12.50 per share distributions, bringing the arrearages as of April 1, this year, down to $110.75 a share, will be completely wiped out. This accumulation of unpaid dividends, incidentally, was piled up mainly in the 1920s and the early '30s, and barred the payment of any dividend on the second preferred and common stocks. Consummation of the recapitalization plan would in all likelihood bring these two latter issues much closer to the time when they would participate in dividend distributions.

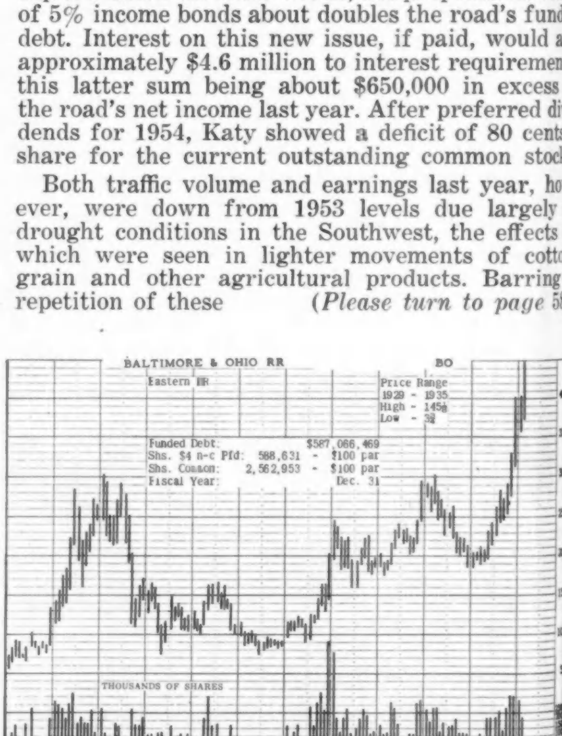
On the basis of the proposed new capitalization, earnings of the road in each of the last eight years covered dividend requirements on both the first and second preferreds by a wide margin, leaving substantial balances for the common stock. In 1954, for example, net income of more than $7.2 million was equal to $20.36 a share of proposed new $5 preferred, with a balance, after payment of dividends at the rate of $5 a share on the senior stock, the equivalent of $36.31 a share on the convertible second preferred. Earnings for the new $10 par common stock, on this basis, would have been equal to $9.10 a share.

Western Maryland's present $7 first preferred always has been regarded as a highgrade investment issue, its five-year price range from 1950 to 1955 to date being 157 low to a recent high of 224, with current price around 211. From its low point of 22, registered in 1954, the common stock, reflecting the more optimistic investor view of its position, has moved up so far in 1955 to a high of 41⅝, the latter price comparing with current quotation at 37⅝.

MISSOURI-KANSAS-TEXAS, plagued by dividend arrearages built up over practically two decades beginning with 1932, and which now amount to $150.50, or a total of $100,384,000, on its $7 preferred stock, has worked out a plan to eliminate these back dividends and at the same time, it believes, will give the company a more realistic capital structure. Under the terms of the plan, now in the hands of the Interstate Commerce Commission for approval, the present preferred stock would be eliminated, holders receiving in exchange for each share owned $140 principal amount of new 5% income bonds, plus one share of new $60 par value class "A" stock. The latter issue would then be outstanding in the amount of 667,005 shares which will receive as a class three-fourths of all dividend distributions, with the remaining one-fourth going to the new common stock of $10 per share par value to be given in exchange for the 808,972 shares of no par value common stock now outstanding. The class "A" stock, however, would be limited to $3 a share in dividends in any one year. Any amount allotted to these shares in excess of $3 a share is to be paid into a sinking fund for the redemption of class "A" stock.

The plan, as submitted to the ICC in January 1955, reduces total equity capital of the road from $133.3 million, or 58.41 per cent of total capitalization, to $48.1 million, equal to 20.34 per cent, but increases "total borrowed capital" from $94.9 million, or 41.59 per cent of the total, to $188.3 million, equal to 79.66 per cent of the new proposed total capitalization. In other words, the proposed issuance of 5% income bonds about doubles the road's funded debt. Interest on this new issue, if paid, would add approximately $4.6 million to interest requirements, this latter sum being about $650,000 in excess of the road's net income last year. After preferred dividends for 1954, Katy showed a deficit of 80 cents a share for the current outstanding common stock.

Both traffic volume and earnings last year, however, were down from 1953 levels due largely to drought conditions in the Southwest, the effects of which were seen in lighter movements of cotton, grain and other agricultural products. Barring a repetition of these (*Please turn to page 58*)



THE EDITORS'

INVESTMENT CLINIC

Case No. 4

The Over-Cautious Investor

A remarkable number of individuals still ing to investment concepts which were popular nong exceedingly conservative investors at the rn of the century. Many of these people had been stees for estates and had inherited, along with eir fiduciary responsibilities, a quite narrow view the function of investments which undoubtedly rang from a conscience deriving its origin from e older New England morality.

As a result of this rigid view, trustees of the riod and others responsible for the care of funds rusted to them, confined their investments almost clusively to government, state and municipal nds, venturing out only after the most careful ex-ination, into the field of the highest grade mort-ge issues. It was rare indeed to find common cks included in such portfolios, all of these with-t exception being considered in the nature of eculations. Local bank stocks were exempt from s rule, particularly where estates included stock ldings of banks with which families had been ntified for many years. Aside from such stocks, wever, it was most unusual New England trustees or trustees elsewhere, actuated the same rigid concepts, to nder far afield from the then nventional means of investing nds.

With the growth of the wealth the United States in the ly decades of the twentieth tury, it had already become parent to many trustees and servative investors that their r-conservative methods were iquated and that they would e to adapt themselves to the er conditions. Unfortunately, ler the terms of wills and er instruments which gov-ed the handling of many es-s, it had often been stipulated t funds could not be invested ept under the rigid condi-s described above. The result that even as far back as 1920's, income from these investments no longer was sufficient to provide requirements originally intended owing to the rise in general prices and consequently in the cost of living. Since the 2nd World War, of course, this situation has been greatly aggravated and estates which had been formulated on the basis of strict adherence to the highest degree of conservatism have suffered severe loss in actual purchasing value though nominal values may have remained the same. Thus, trustees, hampered by unnecessarily rigid stipulations as to the management of funds entrusted to them, found themselves increasingly frustrated. However, as individuals learn of the disadvantage of confining executors and trustees to a sterile mode of investing funds, they now generally draw up wills giving much greater latitude to those responsible for carrying out the specified terms.

While this is to be welcomed as an important improvement in making testatory instruments more effective and manageable under modern conditions in the investment markets, it is surprising that there still remain a large (*Please turn to page* 56)

Two Contrasting Programs For Investing $100,000

For Highly Conservative Investment

Cost	Where Invested	Annual Income
$30,000	Gov't Bonds(*)	$ 675
30,000	Tax-Exempts(**)	600
13,000	100 Shares Amer. Tobacco 6% Pfd.	600
8,800	50 Shares Amer. Tel. & Tel.	450
8,600	200 Shares Dow Chemical	200
9,600	200 Shares General Electric	320
$100,000—Total		Total—$2,845

Yield on Investment=2.85%

(*) Avg. Yield=2¼%
(**) Avg. Yield=2%

For a Balanced Investment

Cost	Where Invested	Annual Income
$10,000	Savings Bank	$ 275
10,000	Gov't Bonds(*)	225
10,000	Tax-Exempts (**)	200
6,500	50 Shares, Amer. Tobacco 6% Pfd.	300
8,000	50 Shares U. S. Steel 7% Pfd.	350
8,800	50 Shares A. T. & T.	450
8,600	(200) Dow Chem.	200
9,600	(200) Gen. Elec.	320
7,600	(200) Gt. Nor. Ry.	440
5,800	(100) Nat'l. Lead	200
6,200	(100) Pitts. Pl. Glass	225
4,200	(100) Radio Corp.	135
4,500	(100) Safeway Stores	240
$99,800—Total		Total—$3,560

Yield on Investment=3.5%

FOR

PROFIT

AND

INCOME

Timing

The folly of impulsively buying or selling stocks, under emotional stress, has been repeatedly demonstrated in the past. It was emphatically demonstrated again in recent market performance. The market "looked good" when the Dow industrial average spurted to a new all-time high on Friday, March 4, for a gain of 10.18 points in one trading week. In the following six trading sessions, with nerves made jittery by unfriendly publicity emanating from the Fulbright committee's "friendly" study of the market and by newspaper scare talk about possible early war in Asia, the average fell about 34 points from intra-day high to low. The market has rarely "looked worse" than it did on Monday, March 14, with the average off 9.72 points in the sharpest one-day fall since June 26, 1950, when it plunged down on outbreak of the Korean war. Those pressured into selling that day had quick reason to feel foolish. In the next two trading sessions the average rose about 18 points on intra-day extremes. Few are smart enough or lucky enough to buy or sell even fairly near major tops or bottoms; and you have no more chance of guessing top or bottom of a fast intermediate price swing than of betting profitably on a horse race. Certainly as long as no rational case can be made out for a major market crash, concentration on sensible stock selection, involving careful weighing of the relative merits of individual issues, figures to be far more worth while than trying to time price swings in "the averages".

Value

Stocks which have lagged behind the market (usually for good reasons) are not necessarily cheap, though some may have possibilities where company situations have begun to change for the better or promise to do so. Stocks which have had wide advances are not necessarily dear. Some may still be attractive. The decisive considerations are the company's basic strength and vigor; and the relation of the price of the stock to present, and reasonably probable future earnings and dividends. Judged by these criteria, some stocks which have already had major advances are nevertheless good values. Tw examples are discussed herewit as follows.

Halliburton

This stock (full name a mouth filling Halliburton Oil Well C menting) has been recommende here from time to time in rece years as a growth issue more a tractively priced than the gener run of more widely know growth stocks. At recent high 62⅜, it was up about 670% fr 1949 low and 170% from 19 low. Gross revenue last year w over double that of 1949 a roughly 15 times that in the pr war year 1939. Earnings ha had similarly impressive grow At $4.94 a share last ye against $3.16 in 1953, they we about double those of 1949 a about 7 times larger than in 19 The company performs essenti

Increases Shown In Recent Earnings Reports

		1954	1953
National Gypsum Co.	Year Dec. 31	$4.56	$2.71
Penick & Ford, Ltd.	Year Dec. 31	4.74	2.94
Bath Iron Works Corp.	Year Dec. 31	5.51	3.57
General Precision Equipment	Year Dec. 31	6.49	5.09
Robertshaw-Fulton Controls	Year Dec. 31	2.50	1.90
American Bank Note	Year Dec. 31	1.45	.69
American Chicle Co.	Year Dec. 31	4.46	3.59
General Electric Co.	Year Dec. 31	2.46	1.92
Columbia Gas System	Year Dec. 31	1.09	.65
Gillette Co.	Year Dec. 31	5.54	4.36

rvices in the growing oil indus-ry. It is well managed and well ponsored, large stock holders in-luding Texas Company, Gulf Oil nd Sun Oil. Finances are strong. rofit should readily reach $5.50 r so a share this year or not ery far from three times the $2 ividend rate. The latter could ove up to $2.50. Long-pull po-ntials remain satisfactory. round 54, the stock is available bout 8 points under its high, is lling around 10 times likely 955 earnings (a low ratio for a rowth stock), and yields about .7% on the present dividend, .6% on a possible $2.50 dividend. ere, we would not count on fast tion. The stock is suitable for ose interested in a realistic lue on current and longer-term rspective.

elly Oil

This is not one of the biggest l companies, with gross over 00 million a year, but it is mong the best situated. Strong oints include a good position ith respect to oil and gas re-rves, a crude oil output in ex-ss of refinery volume, and a latively large stake in liquefied troleum gas. The demand curve r the latter has for some time en rising at a considerably fast-r rate than that for oil products. he company's growth over the st decade has exceeded that of e oil industry. Earnings were .13 a share last year, and prom-e to better that by a good mar-n this year. At 51, against re-nt high of 56, the stock is iced at about 10 times last ar's earnings. In the last six ars, annual dividend payments ve doubled. They are still ghly conservative at a $1.80 te, and thus probably subject to rther increases over a period of time. The current yield is only 3.5%, but this is not a stock to buy for yield. Based on earning power and eventual dividend potentials, it is a sound selection for longer-term capital gain.

Stability

If you want yield and stability —the latter so marked that there is scant promise of capital gain—consider the snuff stocks. Although people using snuff are relatively few, compared to tobacco smokers, enough use it to give U.S. Tobacco sales around $29 million a year, American Snuff around $18 million, Helme over $10 million. The latter two had moderate gains in 1954 volume and earnings. U. S. Tobacco, which is also in the more competitive cigarette business, had shrinkages in both. Dividends of all three have been continuous and liberal for periods ranging from roughly 40 to 50 years. American earned $3.52 a share in 1954, partly due to lower taxes, against 1953's $3.15. The dividend is $2.40. The stock is at 43¾ in a 1954-1955 range of 44¾-36, yielding about 5.5%. Helme netted $1.73 a share last year, up from $1.61 in 1953 and is paying a $1.60 dividend. With finances more than adequate, it has paid out virtually all earnings for some years. In fact, dividends in quite a few years have exceeded earnings. The stock is at 23¾ in a 1954-1955 range of 24⅜-21⅜, which is pretty close to minimum fluctuation for a common stock. The yield is over 6.6%.

Meat Packers

This looks like a much better than average year for the meat packing industry, notorious for sharp fluctuation of earnings. Consumer income is at a record level. Supplies of hogs and beef cattle are large, and at prices favorable to margins of the packers. Earnings probably will be far above last year's. But this prospect has already been discounted to at least a substantial extent in prices of the stocks, and the moot question is the maximum valuation likely to be put on good one-year earnings of such and up-and-down industry. It depends on market sentiment, which is an intangible impossible to forecast for any great distance ahead. Swift is the best of the stocks, carrying dividends every year since 1888, with the exception of 1933. For the fiscal year ending October 31, net should be sharply above the prior year's $3.22 a share and may be around or a bit above the $5.72 reported for the 1953 fiscal year. In the latter year, on a $2.40 dividend basis, the stock did not get above 44¼. It is now at 47½ on an indicated $2.50 basis, which might be boosted by an extra to $3, same as in the 1954 fiscal year. The stock's 1954-1955 high to date was 51½. Armour had a loss in the 1954 fiscal year, against net of $1.81 a share in the prior year. It might net anywhere from $2.50 to $3.50 in the present year. On peak post-war profit of $3.94 a share in the 1950 year, the stock did not get above 11⅝. Under more speculative market conditions in early 1946 it reached 18½, with that year's net $3.71 a share. No dividend has been paid since 1948. The stock, highly speculative, is at 14¼ in a 1954-1955 range of 16⅜-8⅝. It might go higher, but we have to advise you to let others do the speculating in it.

Profit-taking

Some of the stocks which have had very large advances in the past year and a half have gotten to the point where holders are tempted to mark down costs by partial acceptance of profits. Some of these people have adopted a policy of waiting to see if these funds should be reinvested. At these levels, profit taking, at least on a moderate scale, would seem warranted. Long-term positions, of course, should not be disturbed but this would apply more to the high-grade investments.

(*Please turn to page* 58)

Decreases Shown In Recent Earnings Reports

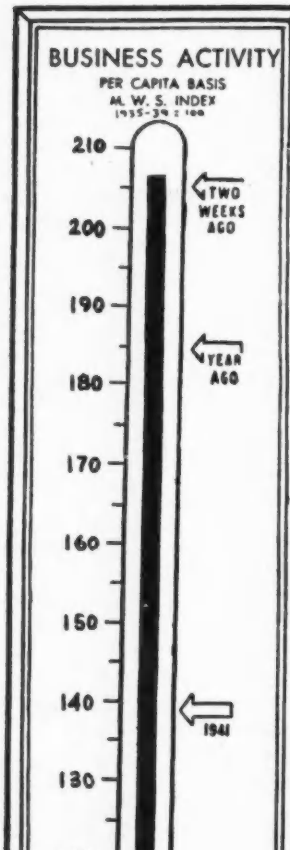
		1954	1953
National Malleable Steel Cast.	Year Dec. 31	$ .69	$4.74
General Tire & Rubber	Year Nov. 30	3.18	4.91
Pittsburgh Coke & Chemical	Year Dec. 31	.71	2.63
West Virginia Coal & Coke	Year Dec. 31	.13	1.11
Interlake Iron	Year Dec. 31	1.61	2.96
Electric Auto Lite	Year Dec. 31	.45	6.73
United Fruit	Year Dec. 31	3.58	5.07
Starrett, L. S. Co.	6 mos. Dec. 31	.50	2.94
Van Norman Co.	Year Dec. 31	.87	2.41
Mohawk Carpet Mills	Year Dec. 31	1.53	2.64

The Business Analyst

WHAT'S AHEAD FOR BUSINESS?

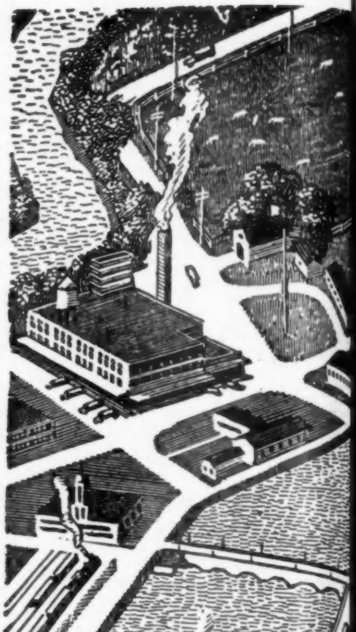
By E. K. A.

Recently, for the first time in many months, the action of commodity prices or more properly of the sensitive commodity prices has aroused apprehension over the maintenance of stability in the general commodity price structure. Since late in 1952, the Bureau of Labor Statistics index of wholesale commodity prices, usually adjudged to be the best measure of the price level, has registered very little change, fluctuating closely from month to month around 110 percent of its 1947-49 base.



Such long-maintained overall stability in the commodity price structure is not altogether unprecedented, although it is highly unusual. The stability in the price structure, if it really can be called that, has been largely the result of the balancing out of opposing forces rather than any amount of extensive leveling out. Farm products, foods, and apparel have declined rather steadily. Meanwhile, metals and metal products, machinery, lumber and other building materials, and rubber products have advanced.

Apparently, inflation is no longer a factor insofar as the general price level is concerned, although what economists call "wage inflation" still is tending to push up prices of numerous manufactured products ..which.. carry.. a large weight in the BLS index. However, those close to the sensitive commodity or raw material markets are beginning to wonder whether deflationary forces may not be gathering sufficient strength to end before overall price stability of the past 30 months and extend the slow downward price trend that prevailed during much of 1951 and 1952.



For, in the sensitive commodity futures markets, the average level of prices declined a little more than 10 percent from late January until early March. This was one of the sharpest declines in futures on record and was particualrly interesting since most futures gave way to varying degrees. During this same period, prices of metals were very firm and firmness also was in evidence in some other commodity areas.

However, close students of commodity price movements maintain that this firmness has been in areas that are unimportant from an "indicator" standpoint. For many years broad movements in the average level of prices of commodities traded on futures markets always have preceded by a few months similar changes in the BLS wholesale price index. Unless the rules have changed suddenly, it is contended, the general price level will begin to work lower before long. A few go so far as to suggest the possibility of the ascendancy of deflationary forces.

The BLS price index, now at 110 percent of its 1947-49 base, is equivalent to 173 on the 1926 base in use before the war. Judged by any normal standards, the price level is very high and, unquestionably, there is much artificiality in the price structure.

But, anything even remotely resembling a "collapse" in the general price structure is out of the question unless business activity both here and abroad goes into a tailspin, and there is no hint anywhere of such a development. Prices, it should be remembered, are largely "made" in world markets.

Nevertheless, there are indications of growing heaviness in important commodity areas that should not be disregarded. Despite high level production costs, the extension of downward pressures into other areas is a possibility that business men and investors should take into consideration.
business men and investors should take into consideration
at this particular juncture.

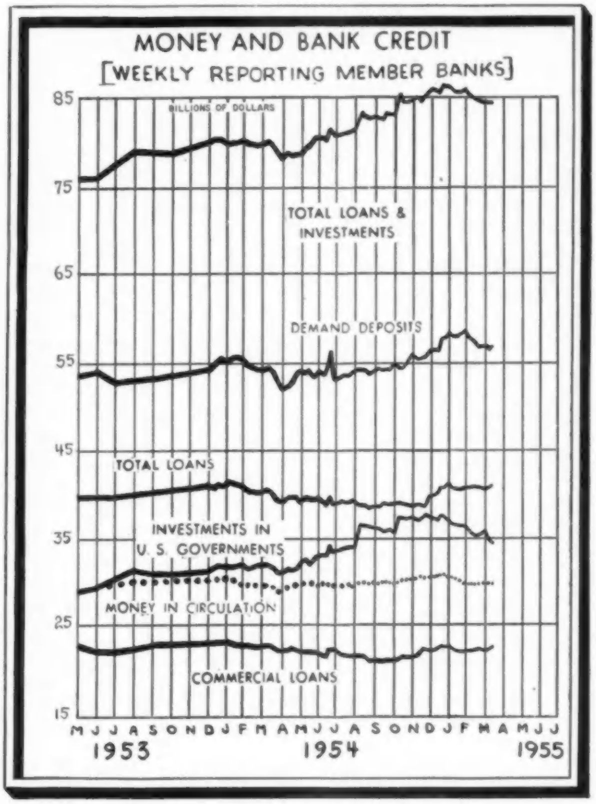
The Business Analyst

HIGHLIGHTS

MONEY & CREDIT—Seasoned bond issues moved up a bit in the first three weeks of March, although gains in most cases were of modest proportions. Long-term Treasuries gave the best performance with the 40-year 3s adding 5/16 during the period and the 3¼s of 1983-1978 tacking on ⅞ point. Highest grade corporates moved ahead lazily and yields in this sector were a few basis points under levels prevailing at the beginning of the month. Among tax-exempts, the market appeared to be in a state of almost suspended animation with little discernible price variation for most issues. An observer concentrating his attention on the action of seasoned high quality issues would thus have garnered an impression of quiet strength from this sector of activity. Before coming to any final conclusion on the subject, however, it would be well to cast a glance at the new-issue market, where recent developments might well shake the conclusions previously reached. In this sector, underwriters have not been having an easy time despite a relatively light calendar of actual sales. They have found their offerings lagging and price concessions necessary in order to clean up a position. In the tax-exempt field, especially, signs of indigestion have put in an appearance. Over-hanging this market are more than $800 million of revenue issues whose offering dates have been postponed, but whose sponsors are eager to get these securities to market at the earliest opportunity. Various reasons have been advanced for the pile-up of issues in this field, with legal and political road blocks getting some of the blame. In many cases, however, underwriters are unwilling to risk commitments at prevailing prices, realizing that there is no longer a plethora of available funds and that this has caused investors to become rather choosy in their buying.

Several factors are responsible for the smaller supply of money available for long-term investment in securities. Taking first place is the record absorption of funds by borrowers on home mortgages with this source currently the repository of more savings than the combined net borrowing of corporations and state and local governments. Another element in the diminution of uncommitted long-term funds was the Treasury's February offering of $1.9 billion of 40-year bonds. Also of importance is the Federal Reserve's evident determination to prevent excessive lending, in pursuit of which end it is effectively limiting the excess reserves of the member banks. Some investors argue, with evident logic, that easing commodity prices and a still sizeable force of unemployed will deter the Federal Reserve from adopting really stringent credit policies, and this conviction may explain the steadiness of seasoned issues. Still, the undeniable fact exists of a rather taut money market at present, hardly the background for any pronounced near-term rise in the price of fixed-income securities.

TRADE—Retail trade has been perking up a bit in the first half of March and Dun & Bradstreet estimates that dollar volume in the week ending Wednesday, March 16, was some 7% ahead of a year ago. Apparel was in good demand in the latest week, household goods had a seasonal spurt and auto sales appeared to be rising above previous high levels.



The Commerce Department's advance report on retail trade, notes that sales in February, on a seasonally adjusted basis, matched the January results and were 6% ahead of February, 1954. Decline in sales of some types of goods in February were offset by an increase in demand for autos.

INDUSTRY—The Federal Reserve Board reports that its index of industrial output rose two points in February, to 133% of the 1947-1949 average, from 131 the previous month and 125 a year ago. Further improvement is visible thus far in March with the tonnage rate of steel output close to the record of early 1953, auto assemblies still mounting and truck production recovering smartly from its February dip.

Gains in February output were most marked for durables and minerals. The former is still substantially below its 1953 peak, however, while mineral production has surpassed that year's high. Output of nondurables has been steady at levels

(Please turn to following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES $b—(e)	Jan.	3.1	3.5	3.5	1.6
Cumulative from mid-1940	Jan.	577.0	573.9	533.5	13.8
FEDERAL GROSS DEBT—$b	Mar. 16	277.6	278.1	274.2	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Mar. 9	56.8	56.3	54.8	26.1
Currency in Circulation	Mar. 16	29.8	29.2	29.8	10.7
BANK DEBITS—(rb)**					
New York City—$b	Dec.	62.6	63.2	55.4	16.1
344 Other Centers—$b	Dec.	103.2	99.1	94.7	29.0
PERSONAL INCOME—$b (cd2)	Jan.	290.7	291.4	284.9	102
Salaries and Wages	Jan.	199	198	195	99
Proprietors' Incomes	Jan.	49	49	50	23
Interest and Dividends	Jan.	25	26	24	10
Transfer Payments	Jan.	17	17	15	10
(INCOME FROM AGRICULTURE)	Jan.	15	15	17	3
POPULATION—m (e) (cb)	Feb.	164.2	163.9	161.3	133.8
Non-Institutional, Age 14 & Over	Feb.	116.9	116.9	115.8	101.8
Civilian Labor Force	Feb.	63.3	63.5	63.7	55.6
Armed Forces	Feb.	3.2	3.2	3.4	1.6
unemployed	Feb.	3.4	3.3	3.7	3.8
Employed	Feb.	59.9	60.2	60.1	51.8
In Agriculture	Feb.	5.1	5.3	5.7	8.0
Non-Farm	Feb.	54.9	54.9	54.4	43.2
Weekly Hours	Feb.	40.9	40.8	41.0	42.0
EMPLOYEES, Non-Farm—m (lb)	Feb.	47.8	47.8	47.9	37.5
Government	Feb.	6.9	6.8	6.6	4.8
Trade	Feb.	10.4	10.5	10.3	7.9
Factory	Feb.	12.7	12.6	12.9	11.7
Weekly Hours	Feb.	40.5	40.2	39.6	40.4
Hourly Wages (cents)	Feb.	1.85	1.84	1.80	77.3
Weekly Wage ($)	Feb.	74.93	73.97	71.28	21.33
PRICES—Wholesale (lb2)	Mar. 15	110.0	110.1	110.5	66.9
Retail (cd)	Dec.	207.4	207.6	209.1	116.2
COST OF LIVING (lb2)	Jan.	114.3	114.3	115.2	65.9
Food	Jan.	110.6	110.4	113.1	64.9
Clothing	Jan.	103.3	104.3	104.9	59.5
Rent	Jan.	129.5	129.4	127.8	89.7
RETAIL TRADE—$b**					
Retail Store Sales (cd)	Jan.	14.9	15.1	13.6	4.7
Durable Goods	Jan.	5.1	5.3	4.4	1.1
Non-Durable Goods	Jan.	9.7	9.8	9.2	3.6
Dep't Store Sales (mrb)	Jan.	0.89	0.89	0.81	0.34
Consumer Credit, End Mo. (rb)	Jan.	29.7	30.1	28.7	9.0
MANUFACTURERS'					
New Orders—$b (cd) Total**	Jan.	25.1	25.3	20.7	14.6
Durable Goods	Jan.	12.5	12.3	8.5	7.1
Non-Durable Goods	Jan.	12.7	13.1	12.3	7.5
Shipments—$b (cd)—Totals**	Jan.	24.8	24.8	23.9	8.3
Durable Goods	Jan.	12.3	12.0	11.6	4.1
Non-Durable Goods	Jan.	12.6	12.8	12.3	4.2
BUSINESS INV'TORIES, End Mo.**					
Total—$b (cd)	Jan.	77.3	77.3	80.7	28.6
Manufacturers'	Jan.	43.6	43.7	46.4	16.4
Wholesalers'	Jan.	11.5	11.5	11.8	4.1
Retailers'	Jan.	22.2	22.1	22.5	8.1
Dept. Store Stocks (mrb)	Jan.	2.4	2.5	2.4	1.1
BUSINESS ACTIVITY—1—pc	Mar. 12	206.3	205.3	184.9	141.8
(M. W. S.)—1—np	Mar.	259.8	258.5	228.9	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 39)

slightly under the high of two years ago.

* * *

COMMODITIES—Spot prices of leading commodities were somewhat steadier in the two weeks ending March 18 and the Bureau of Labor Statistics' daily index of 22 important commodities lost only 0.6% during the period to close at 89.5% of the 1947-1949 average. Most components of the index were slightly lower but metals continued to buck the trend, gaining 0.2%.

* * *

Businessmen are planning to increase their outlays for **NEW PLANT AND EQUIPMENT** in the second quarter of 1954, according to the Government's recent survey on the subject. After 18 months of consecutive decline which saw expenditures for this purpose drop from a peak of $28.92 billion, at seasonally adjusted annual rates, in the third quarter of 1953, to an estimated $26.04 billion in the first quarter of 1955, outlays in this year's second quarter are expected to rise to $27.43 billion. Mainly responsible for the upturn will be increased spending for commercial enterprises, with new shopping centers and extensive store modernization programs accounting for most of the improvement. Manufacturers are planning to spend less than last year for expansion, but the decline in this sector will not be as great as had previously been expected. Manufacturers of steel, nonferrous metals and machinery, which had reduced their outlays last year, are now planning increases. Producers of petroleum and rubber are also projecting increased expenditures. On the other hand, auto makers will reduce capital expenditures appreciably in comparison with last year's large outlays.

* * *

NEW CONSTRUCTION activity declined seasonally in February, 1954. After allowance for seasonal factors, total expenditures were at a $40.5 billion annual rate, which compares with last year's outlays of $37.2 billion. Private residential building in February was valued at $1,034 million, a 36% gain over a year ago. Industrial construction was 5% ahead of February, 1954 and commercial building was up 25%. Railroad construction was one of the few laggards, falling 20% under a year earlier. In public construction, industrial building, at $77 million in February, was 44% under a year ago as the result of decrease in installations for the Atomic Energy Commission while

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD. Ia np (rb)	Feb.	133	131	125	93
Mining	Feb.	121	118	113	87
Durable Goods Mfr.	Feb.	147	145	139	88
Non-Durable Goods Mf.	Feb.	121	120	114	89
CARLOADINGS—t—Total	Mar. 12	667	659	610	933
Misc. Freight	Mar. 12	365	363	332	379
Mdse. L. C. I.	Mar. 12	65	65	65	66
Grain	Mar. 12	44	43	44	43
ELEC. POWER Output (Kw.H.) m	Mar. 12	9,726	9,727	8,519	3,266
SOFT COAL, Prod. (st) m	Mar. 12	8.3	7.7	7.1	10.8
Cumulative from Jan. 1	Mar. 12	85.8	77.5	77.8	44.6
Stocks, End Mo.	Jan.	65.9	69.2	75.7	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Mar. 11	6.8	6.8	6.5	4.1
Gasoline Stocks	Mar. 11	183	182	178	86
Fuel Oil Stocks	Mar. 11	45	44	46	94
Heating Oil Stocks	Mar. 11	64	66	65	55
LUMBER, Prod.—(bd. ft.) m	Mar. 12	263	255	248	632
Stocks, End Mo. (bd. ft.) b	Jan.	9.1	9.1	9.1	7.9
STEEL INGOT PROD. (st) m	Jan.	8.8	8.3	8.0	7.0
Cumulative from Jan. 1	Jan.	8.8	88.3	88.0	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Mar. 17	375	358	215	94
Cumulative from Jan. 1	Mar. 17	3,486	3,112	2,183	5,692
MISCELLANEOUS					
Paperboard, New Orders (st) t	Mar. 12	270	267	243	165
Cigarettes, Domestic Sales—b	Dec.	26	30	29	17
Do., Cigars—m	Dec.	409	573	437	543
Do., Mfrd. Tobacco (lbs.) m	Dec.	14	17	14	28

PRESENT POSITION AND OUTLOOK

roadbuilding fell 12% because of especially inclement weather.

* * *

Only 877 business firms **FAILED** in February of this year, the lowest level since last October and 5% under February, 1954. However, liabilities of failing firms rose 11% above the January figure, amounting to $42.1 million in February. The increase in liabilities was concentrated in firms with debits of more than $100,000 while smaller concerns had fewer failures, according to data from Dun & Bradstreet. Compared with a year ago, liabilities were down 12%, with decreases ranging from 1% in the $5,000-$25,000 class, to 11% in the $25,000-$100,000 category.

* * *

Net earnings of **SMALL BUSINESSES,** which dipped sharply from 1950 to early 1954, have recently been showing some recovery, according to data from the Small Business Administration. Using 1947-1949 as the base period for an index of net earnings of manufacturing corporations with assets under $1 million, the Government agency notes that this index, which was up to 118 in 1950 had fallen to 46 in early 1954. Currently, the index has recovered to above 60.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted index (1935-9—100). Ia—Seasonally adj. index (,1947-9—100). Ib—Labor Bureau. Ib2—Labor Bureau (1947-9—100). Ib3—Labor Bureau (1935-9—100). It—Long tons. m—Milions. mpt—At mills, publishers and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board, rb3—Federal Reserve Bank of N. Y.—1941 data is for 274 centers. st—short tons. t—Thousands. *—1941; November, or week ended December 6. **Seasonally adjusted.

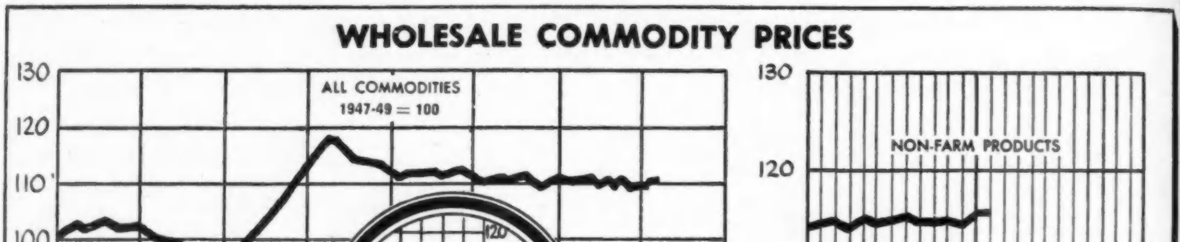
THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	'54-55 Range High	Low	1955 Mar. 11	1955 Mar. 18
300 COMBINED AVERAGE	306.9	192.8	291.2	294.5
4 Agricultural Implements	302.7	189.7	286.5	289.2
3 Air Cond. ('53 Cl.—100)	123.0	99.0	107.9	107.9
10 Aircraft ('27 Cl.—100)	1084.9	404.4	992.2	1010.8
7 Airlines ('27 Cl.—100)	1169.6	512.3	1065.2	1086.1
4 Aluminum ('53 Cl.—100)	242.3	99.0	226.6	236.4
7 Amusements	159.8	87.6	147.0	148.6
9 Automobile Accessories	340.0	241.3	324.2	327.3
6 Automobi:es	47.5	38.4	44.3	44.8
4 Baking ('26 Cl. 100)	29.8	23.0	29.2	28.9
3 Business Machines	857.5	362.3	804.3	844.2
6 Chemicals	501.0	369.3	461.7	461.7
3 Coal Mining	18.3	9.4	16.3	17.3
4 Communications	112.4	61.0	104.9	106.0
9 Construction	118.5	64.0	111.9	113.0
7 Containers	725.9	495.4	682.3	682.3
7 Coppper Mining	261.6	140.6	245.4	257.0
2 Dairy Products	129.1	102.0	118.8	120.0
6 Department Stores	85.6	56.8	80.8	80.8
5 Drugs-Eth. ('53 Cl. 100)	140.4	97.0	136.4	140.4
6 Elec. Eqp. ('53 Cl.—100)	174.7	99.0	163.8	163.8
2 Finance Companies	626.5	394.8	589.6	589.6
6 Food Brands	279.7	194.6	269.2	271.9
3 Food Stores	151.6	130.2	137.7	139.1

(Nov. 14, 1936 Cl.—100)	High	Low	1955 Mar. 11	1955 Mar. 18
100 HIGH PRICED STOCKS	195.2	124.0	187.1	189.4
100 LOW PRICED STOCKS	381.6	225.0	358.5	362.4
4 Gold Mining	827.4	517.4	720.4	706.2
4 Investment Trusts	157.1	99.5	146.7	149.7
3 Liquor ('27 Cl.—100)	1080.1	805.8	972.1	972.1
9 Machinery	369.6	210.0	350.1	353.4
3 Mail Order	174.0	110.2	167.5	169.1
4 Meat Packing	126.0	85.7	118.8	120.0
5 Metal Fabr. ('53 Cl.—100)	178.8	101.1	165.6	168.9
10 Metals, Miscellaneous	390.7	215.1	365.4	372.7
4 Paper	823.7	466.0	799.4	807.5
22 Petroleum	632.1	412.1	602.0	608.0
22 Public Utilities	249.1	194.4	241.9	241.9
7 Railroad Equipment	84.6	52.8	81.6	80.1
20 Railroads	72.6	51.0	68.6	69.3
3 Soft Drinks	487.5	380.1	464.5	478.3
11 Steel & Iron	246.3	133.8	230.5	237.3
4 Sugar	60.7	47.3	56.6	57.2
2 Sulphur	888.6	564.3	829.9	838.3
10 Television ('27 Cl.—100)	45.6	29.0	41.5	41.9
5 Textiles	161.9	101.3	148.4	152.9
3 Tires & Rubber	150.8	86.3	142.1	143.6
5 Tobacco	87.1	73.5	81.9	82.8
2 Variety Stores	317.7	274.4	302.5	299.4
15 Unclassif'd ('49 Cl.—100)	153.7	106.2	146.3	146.3

Trend of Commodities

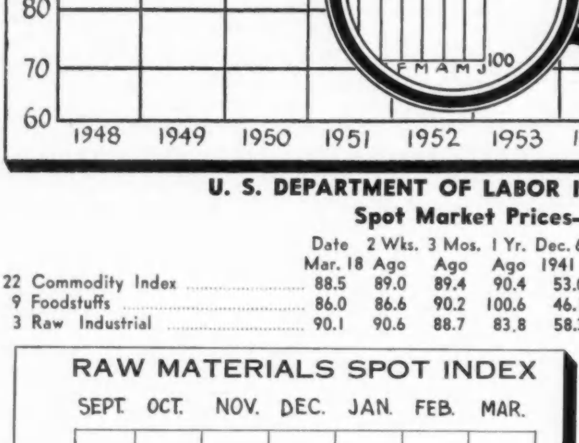
Commodity futures, in the main, were resistant to decline in the two weeks ending March 21 and there were brisk rallies in some cases, retracing part of the losses suffered in the decline of February and early March. The Dow-Jones Commodity Futures Index, however, lost another 0.97 points in the period under review, with a drop of some 4 cents in the price of cocoa futures, mainly responsible for the decline in this index. May wheat added 3½ cents in the two weeks ending March 21 to close at 212½. Weather is again becoming an important price-setting influence with lack of rainfall getting increased attention. Agriculture Department officials continue to warn of the possibility of "dust bowls" and intimate that soil conditions may again become a serious problem. The Department of Agriculture has estimated that 57.5 million acres have been planted to wheat this year. This is 4.5 million acres under last year's plantings but 2.5 million acres above the Government's acreage allotments under its control program. However, a good deal of acreage will not be harvested because of drought. The fight to raise Government price support levels is getting hotter but Agriculture Secretary Benson still stands actively opposed to any such increase. May corn was up 3½ cents in the fortnight ending March 21 to close at 145½. Farmers are planning to plant 82 million acres of corn this year, seven million acres above the Government's allotment goal. Soybean futures countered the trend of most farm products in the two weeks ending March 21 and the May future lost 7 cents to close at 252. Total supply of soybeans on February 1 was some 40% above a year ago. Farmers intend to increase soybean acreage by 6.5% this year, despite the Government's move to discourage planting by reducing price supports.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—1947-1949, equals 100

	Date Mar. 18	2 Wks. Ago	3 Mos. Ago	1 Yr. Ago	Dec. 6 1941
22 Commodity Index	88.5	89.0	89.4	90.4	53.0
9 Foodstuffs	86.0	86.6	90.2	100.6	46.1
3 Raw Industrial	90.1	90.6	88.7	83.8	58.3

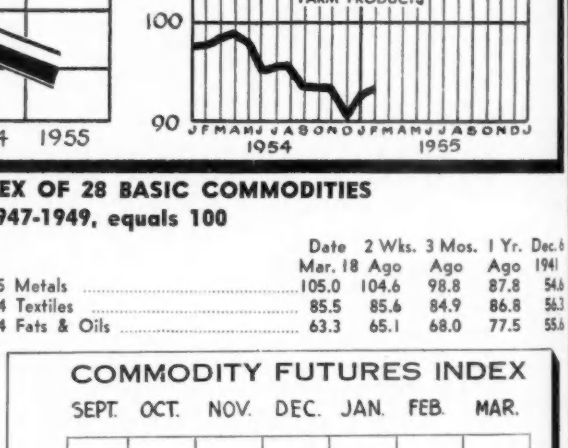
	Date Mar. 18	2 Wks. Ago	3 Mos. Ago	1 Yr. Ago	Dec. 6 1941
5 Metals	105.0	104.6	98.8	87.8	54.6
4 Textiles	85.5	85.6	84.9	86.8	56.3
4 Fats & Oils	63.3	65.1	68.0	77.5	55.6



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1954-55	1953	1952	1951	1945	1941	1938	1937
High	154.4	162.2	181.2	215.4	111.7	88.9	57.7	86.6
Low	147.8	147.9	160.0	176.4	98.6	58.2	47.3	54.6



Average 19244-26 equals 100

	1954-55	1953	1952	1951	1945	1941	1938	1937
High	183.7	166.5	192.5	214.5	95.8	74.3	65.8	93.8
Low	155.5	153.8	168.3	174.8	83.6	58.7	57.5	64.7

WHAT'S NEW?

—A Record of Important Company Developments

Sperry Corp.-Remington Rand. A merger between the two companies has been announced; ratification awaits the stockholders meeting called for the purpose. Stock in a new company will be exchanged on the basis of 3¼ new shares for each share of Sperry and 2 shares for each share of Remington Rand. The differential has already been established in the stock market, Sperry selling approximately 10 points above Remington Rand. The merger will bring together two outstanding organizations in the booming electronic industry, Sperry in instrumentation and Remington Rand in electronic computers.

U. S. Pipe & Foundry. This stock has rather unobtrusively climbed from the middle 30's to its recent price of about 80 (the high was made at 86½). 1954 earnings were a record $9.74 per share after $7.37 in 1953. Dividends were $4 in 1954 and $3 in 1953. The stock seems headed for a split-up. Only 920,000 shares are outstanding.

Combustion Engineering, Inc. has joined that rather still select group of companies that are financing through their own resources the construction of new facilities for the manufacture of nuclear power equipment. The company is building reactor compounds and boilers for the new atomic-powered submarine, Sea Wolf. Combustion Engineering is also about to build the reactor vessel for the Duquesne Light Co. nuclear power plant near Pittsburgh, first nuclear power plant of commercial size to be built in the country. Under Atomic Energy Commission authorization, the company will study various processes and technical equipment for the commercial utilization of atomic energy. Among them will be: large reactors for central power installations; small reactors for special application; and fuel fabrication.

Pennsylvania R. R. Earnings for 1954, at $1.41 a share, were sharply lower than in 1953, when earnings were $2.95 a share. The situation is likely to be much improved this year and, as a matter of fact, earnings reported so far this year, indicate a reversal of the poor 1954 trend. Factors contributing to the improvement are: reduced expenditures for capital improvements with the major part of an 8-year program behind the company; better operating methods and control of costs. Over $3 a share is expected in earnings this year.

Consolidated Textile Co. has again failed to take action on its stock. Last dividend paid was in January 1954. Earnings have been poor; in the Nov. 27, 1954 quarter, there was a deficit of $117,000. The company has been enlarging its holdings of Bates Mfg. Co. and now owns approximately 785,000 shares of the latter, or 44% of the outstanding stock. It is understood that it will shortly own about 55% of the stock. Bates has been one of the more successful textile manufacturers and even in the generally unsatisfactory 1954 year, managed to earn a small surplus for the common when other companies found the going tough.

Long Island Lighting Co. The company has requested permission from the New York State Public Service Commission to issue and sell 50,000 shares new series 4.35% preferred stock. The issue will be placed with institutional (*Please turn to page* 58)

Important Dividend Changes

March 9 to March 22

INCREASED DIVIDENDS

	New Rate	Period
International Tel. & Tel.	$ .30	......
U. S. Plywood	.45	Qu.
Cinn. Gas & Elec.	.30	......
Pressed Metals of Amer.	.25	......

INITIAL DIVIDENDS

	Rate	Period
Corning Glass Works (new)	$ .25	......
Shamrock Oil & Gas (new)	.50	Qu.
Firestone Tire & Rubber (new)	.50	......
American Marietta (new)	.20	......

STOCK DIVIDENDS (Including Stock-Splits)

	Rate
Western Auto Supply	100%
Briggs Mfg. Co.	200
Amerada Petroleum	2 for 1

EXTRA DIVIDENDS

Coty International	$ .10

OMITTED DIVIDENDS

Consolidated Textile	......

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliablity of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Armco Steel Corporation

You have stated in your Magazine that the steel operating rate has increased in recent months and as I am particularly interested in Armco Steel Corp., will you please submit recent earnings data, operating rate, dividends and prospects over coming months?

B. J., Uvalde, Texas

Armco Steel Corporation is an integrated producer with nine well located steel plants. More than half of its products consist of flat-rolled items, in which the profit margins are wider. Over the years the stock has achieved a good earnings record and is one of the better issues in the steel group. Operations recently have been better than average for the industry.

Armco Steel Corporation's earnings for 1954 reached the second highest mark in the company's history. Net income was $40,948,000, equivalent to $7.83 a common share based on 5,228,307 shares outstanding. This compares with 1953 net income of $33,902,462 equal to $6.50 per common share based on 5,214,989 shares outstanding.

Armco's total sales for 1954 were $531,206,000 compared with $588,919,900 in 1953.

Armco produced 4,448,772 net tons of ingot in 1954, only 5% below the peak output of 1953 when 4,704,773 tons were turned out.

The company's income before taxes totaled $84,534,000, equal to $16.17 per share of common stock. Taxes amounted to $43,586,000 or $8.34 per share. Earnings before taxes in 1953 were $85,615,000 and taxes totaled $51,712,541. Combined charges for depreciation and accelerated amortization totaled $32,317,000. In 1954 the company's long-term debt had been reduced by $11,186,000, leaving $64,095,000 at the year-end.

Directors have authorized expenditures of approximately $60 million for an extensive improvement program which will include an increase in steelmaking capacity.

The latest dividend declaration of 90¢ per share on the common stock was payed March 11, 1955. Armco has paid previously dividends at the rate of 75¢ per share per quarter, or $3.00 per year.

The board has approved a split-up of the outstanding shares of common stock by distributing 1 additional share for each share held subject to the shareholders' approving an increase in the authorized number of shares at the annual meeting to be held April 22, 1955. The dividend of 90¢ a share declared recently is the equivalent of 45¢ a share after the proposed split-up is affected.

The outlook for steel production in 1955 is good and the company expects a continued strong demand for its fabricated products. In addition, improved business conditions in most foreign countries are resulting in strong demand for the products and services of Armco International Corp., the subsidiary which conducts its foreign business.

Earnings for the first quarter of 1955 are expected to show a good increase over the corresponding period of last year.

Libbey-Owens-Ford Glass

I subscribe to your Magazine and find it very informative. I would appreciate receiving late information on Libbey-Owens-Ford glass with emphasis on company's expansion program, also please include financial position.

T. T., Atlanta, Georgia

Libbey-Owens-Ford Glass is one of the two leading domestic producers of safety, window and plate glass. General Motors is a leading customer. Automotive glass accounts for about one-half of total sales and company has achieved a good record, always maintaining strong finances. Although automobile sales declined in the early months of 1954, this decline was more than made up by the greater emphasis on more expensive glass, well maintained shipments to the building industry and continued growth in the Fiberglas division.

Total sales of the company for 1954 were $212,340,460 which was 23.5% above the preceding 5-year average.

Net earnings were $24,046,943 which was equal to $4.64 a share, and dividends of $2.85 a share were paid in 1954.

Provisions for taxes amounted to $29,100,000, or $5.61 a share.

The balance sheet at the close of 1954 indicated Libbey-Owens-Ford had assets totaling $132,497,414, including its manufac-

(*Please turn to page* 48)

OLIN MATHIESON CHEMICAL CORPORATION

SUMMARY OF CONSOLIDATED RESULTS

Includes only Domestic and Canadian operations

	Pro-Forma	
	1954	**1953**
NET SALES	$470,108,000	$464,605,000
PRE-TAX PROFIT	60,554,000	67,659,000
Per common share	5.41	6.35
FEDERAL AND FOREIGN INCOME TAXES	26,262,000	37,566,000
Per common share	2.39	3.58
NET PROFIT	34,292,000	30,093,000
Per common share	3.02	2.77
PREFERRED DIVIDENDS	1,010,000	988,000
COMMON DIVIDENDS	19,018,000	15,992,000
TOTAL DIVIDENDS	20,028,000	16,980,000
COMMON SHARES OUTSTANDING AT YEAR-END	11,006,365	10,495,599
Number of common stockholders	36,000	33,000
WORKING CAPITAL AT YEAR-END	174,794,000	146,121,000
Ratio of current assets to current liabilities	4.2	3.4
PLANT AND EQUIPMENT AT DECEMBER 31	345,433,000	325,709,000
TOTAL ASSETS AT DECEMBER 31	619,867,000	562,890,000
EMPLOYEES, INCLUDING OVERSEAS, AT DECEMBER 31	35,600	36,800

For a copy of the complete annual report for 1954, address the Office of the Assistant Secretary, Olin Mathieson Chemical Corporation, 6 Light Street, Baltimore 3, Maryland.

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OLIN MATHIESON CHEMICAL CORPORATION

New York, N. Y. Baltimore, Md. East Alton, Ill.

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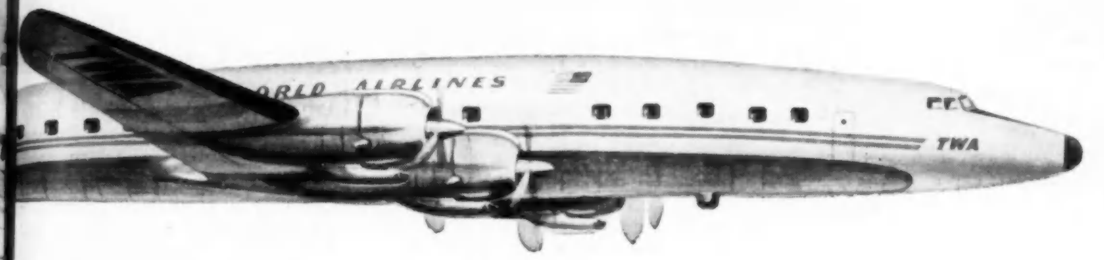

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Answers to Inquiries

(*Continued from page* 44)

$110,721,224 but now carried at book value of $42,673,414 after depreciation. Total provision for depreciation, depletion, amortization and obsolescence in 1954 was $10,073,206 of which $2,900,329 represented amortization of emergency facilities.

Current assets were $51,215,283 against current liabilities of $18,746,397.

The company has no debt and no preferred stock outstanding. its 5,187,925 shares of $10 par common stock were carried at $109,676,322 in the balance sheet.

Outstanding product development of 1954 by the company was the beginning of large-scale output of twin-ground plate glass at its Rossford, Ohio plant and mass production of the new Panoramic auto windshields at the Toledo, Rossford and Ottowa, Ill. plants.

The company carried forward its 3-year construction program, completing its second twin-grinding plant and a new large plate glass polishing plant at Rossford, to increase its production of plate glass.

In addition to the new Parallel-O-Plate Glass and Panoramic windshields brought into large-scale production in 1954, the company continued its development work in the field of transparent coatings on glass and announced a new "neutral blue" shaded windshield for improved color vision, reduction of daylight glare and driver eye comfort.

Sales of glass products for national defense purposes continued to taper off during 1954 and some defense plant areas will be turned over to manufacture of Thermopane insulating glass.

Prospects for the company continue favorable. Dividends including extras totaled $2.85 a share in 1954. The quarterly dividend was increased from 60¢ to 75¢ and this rate is expected to be maintained.

Borden Company

I have a modest investment in Borden Co. stock. Should this stock be held for the long term in a conservative portfolio?

E. L., Pittsburgh, Pa.

Borden Co. ranks second in the dairy industry. Operations have been marked by stability and moderate growth in recent years. The shares warrant retention in a conservative portfolio.

Net income of the Borden Co. and its consolidated subsidiaries in 1954 reached an all-time high of $22,724,336. This was about 12% more than 1953 earnings of $20,264,156 and about 4% more than the $21,890,479 in 1949, the former record year.

Sales last year amounted to $776,838,791, a decline of 2% from the 1953 figure of $792,381,721. Although the company handled a greater volume of products than ever before, the price level was generally lower. This accounted for the decrease in the dollar volume.

Earnings were $4.82 each on the 4,710,000 shares outstanding after payment of a 10% stock dividend on October 11, 1954. This compares with $4.71 the year before on each of the 4,300,000 shares then outstanding. Computed on a basis comparable with 1954, per share earnings in 1953 would be $4.28.

Four factors were responsible for the higher income last year. These were: Expiration of excess profits tax on December 31, 1953; An increase in the volume of products sold; declines in ingredient prices that more than offset, in some cases, reduction in selling prices and the higher cost of wages and other expenses; introduction of new and better equipment and efforts that improved efficiency.

The company completed its 56th year of uninterrupted dividend payments. Cash dividends were $2.80 per share, the same as in each of the four preceding years.

Inventories declined for the second straight year, to $53,501,698 at the close of 1954. This was a decrease of 21% from 1953.

Current assets were $161,474,605 and current liabilities $42,038,082, a ratio of 3.84 to 1. This left a balance of $119,436,523 as working capital, a decrease of $142,239 from 1953.

The budget for capital expenditures for 1955 is $13,971,000. Supplemented by some $4,300,000 in unexpended authorization from prior years, this will make about $18,300,000 available for capital expenditures this year. This amount will be some $5,900,000 more than depreciation accruals provided for these purposes. If actual expenditures exceed these accruals, the difference will be financed from retained earnings.

Sales volume of the items handled by the company's fluid milk operations in 1954 was the highest in the company's history although dollar sales increased only slightly because prices received were generally lower. The company's cheese business was about the same last year as in 1953.

Heightened competition, unsettled prices and intensified product developments adversely affected results of the Food Products Division.

Over-all tonnage and dollar sales of the Chemical Division increased, but profits were slightly lower. Substantial increases in both volume and dollar sales of the Special Products Division made a considerable contribution to the company's profits. The Soy Processing Department had a profitable year, while the Feed Supplements Department showed slightly better results than in 1953.

Prospects for the current year are favorable.

Peoples Gas Light & Coke Company

I am retired and therefore am interested mainly in good quality stocks in defensive industries where income is dependable. Will you please submit recent data on Peoples Gas Light & Coke Co.

N. D., Orlando, Fla.

Consolidated net income of The Peoples Gas Light & Coke Co., Chicago, and subsidiary companies in 1954 amounted to $12,139,482, or $10.85 per share. This compared with consolidated net income in 1953 of $11,422,975, or $10.21 per share.

The company is an integrated gas system; operates in the Chicago area.

Revenue from consolidated gas sales of 1954 totaled $129,887,898, an increase of 20.38% over 1953.

The increase of $3,716,000 in additional annual gross revenues which the company requested, subject to partial or full refund in the event of a later reduction in natural gas cost, will only offset the actual increase in costs of natural gas purchased, according to the chairman of the board.

Net earnings from the company's utility operations in 1954 provided a return of only 3.85% on the fair value of the company's gas utility property.

Corporate debt income for

Answers to Inquiries

Peoples Gas amounted to $9,607,499, or $8.59 per share, as compared with $8.18 for 1953.

Net income of Texas-Illinois Natural Gas Pipeline Co., a subsidiary of which Peoples Gas owns 70.56% of its common stock, totaled $4,924,686, or $1.40 per share of the common stock, approximately the same as 1953. Although amounts received or receivable by Texas-Illinois increased $9,365,279 for 1954, there was no real improvement in net income due to increased amounts paid or set aside for natural gas purchased, depreciation and other costs related to the expansion of pipeline system's capacity.

The Peoples Gas System supplies 24 other gas utilities in the Middle West in addition to the Peoples Gas Light & Coke Co. in Chicago. The latter company had a all-time high sendout of 4,492,000 therms on January 26, 1955, an increase of 45% over the peak day sendout for 1951, when the first major step in the company's expansion program was completed. Two important developments in 1954 in the continuing expansion program have increased the system's peak day natural gas delivery capacity to the record of 191 million cubic feet.

These developments were the beginning of commercial operation of the big underground storage field project at Hersher, Ill., and completion of the $33 million expansion program of the Texas-Illinois pipeline system, which now has a daily transmission capacity of 519 million cubic feet.

Plans for 1955, subject to Federal Power Commission approval, call for an expansion of the Hersher storage field facilities to provide a withdrawal capacity of 430 million cubic feet of natural gas on cold weather days of maximum demand. Expansion of the field, which will require an estimated expenditure of $7,500,000, will approximately triple the peak day deliveries of the Hersher facility.

Dividends in 1954 totaled $6.25 per share and $1.75 is the current quarterly rate. Prospects for this system continue favorable.

Borg-Warner Corp.

Borg-Warner Corp. has been mentioned as a growth company by some financial advisors and therefore I would like to receive late information regarding the company, with prospects for the current year and what are the dividends?

E. C., Canton, Ohio

Borg-Warner Corp. is a major producer of gears, carburetors, clutches, transmissions and ignition systems for automotive, aviation and farm implement industries. It also makes household appliances and utilities. Through acquisitions and development of new products, particularly automatic transmissions, earnings in recent years have been generally upward.

The company reported that 1954 was the second largest year in sales and the third largest year in net earnings in the 27-year history of the corporation.

Income after taxes of $24,460,075 last year, equaled $9.80 per common share, compared with income after taxes of $23,978,142, or $9.77 per common share, in 1953. There was a drop in sales volume to $380,317,341 in 1954, compared with $407,379,000 in 1953 and this drop was attributed partly to a reduction in defense sales. A decline in sales and earnings in the early months of 1954 were sharply reversed and turned into a definite increase in the closing months. As for the current year, the company anticipates one of its best years. The up-trend in company's business is continuing at an accelerated pace and expectations are that the largest sales volume in its history will be achieved this year. However, if there are work stoppages in the automotive industry this year, then sales and earnings will naturally be adversely affected.

Despite the prospects for a good year, the company's production in sales in the latter half of 1955 may not equal the first half. This is probable because of an indicated later curtailment of production in the automobile industry, which currently is operating at the highest rate in its history. However, due to diversification of Borg-Warner's products, it is not necessary for the automobile industry to be running at the present unprecedented rate for the company to enjoy satisfactory sales and income.

Borg-Warner's Norge Division, manufacturers of home appliances, approximately doubled its business in 1954. In January of 1955, sales rose to a record $15,492,000 for a single month, an in- crease of 269% over Januar 1954 sales, and more than t volume for the entire first qua ter of 1954. Norge's sales and i come continue to increase in t first quarter of 1955. Sales most other company divisio currently show good increases.

The corporation's capital e penditures in 1954 were sligh over $24 million, mainly repr senting the cost of a new, high modern addition to the divisi plant at Decatur, Ill. Producti of automatic transmissions this new department of the pla was started late last year a maximum production will be a tained in mid-summer of 1955.

While capital expenditures 1955 will not equal those of 195 additional physical expansion company's manufacturing faci ties is under way. The Canadi subsidiary has built a new 80,0 square foot factory at Oakvil Ontario, for the manufacture automotive radiators. A ne manufacturing subsidiary- Morse Chain of Canada, Ltd. was formed and will occupy plant which is being built in Si coe, Otnario, to produce autom tive and industrial chains for t Canadian market.

In addition to the upsurge sales of Norge appliances, t other divisions of Borg-Warn are increasing the manufactu and sale of products for the hom Among these are new lines warm air furnaces and air co ditioners now being introduc by the Ingersol Conditioned A Division.

The stock was split 3-for-1 January 1955, earnings adjust for this split on the comm stock for 1954 were $3.27.

The quarterly dividend on t split stock was increased fr 42½¢ to 50¢ per share with t next payment to be made on Ju 1st.

Electric Storage Battery

As a subscriber to your Magazin would be interested in receiving the r sons for the sharp decrease in sales Electric Storage Battery last year also will you please let me know what working capital position of the comp is?

D. L., Chester,

Consolidated sales of The El tric Storage Battery Co. and subsidiaries for 1954 were $7 708,769, a decrease of 19% fr 1953 sales of $96,191,286.

Earnings of $7,787,974,

.58 per share, for 1954 were ongly influenced by the sale of e company's investment in The loride Electrical Storage Co., d in England. Eliminating the ofit of $8,616,463, net of income es, on that transaction, the npany sustained a net loss of 8,489 on operations for the ar.

This loss was due to several nificant factors, chiefly loss of ome inherent in reduced sales ume and its resultant adverse ects on costs. Other factors re increased labor and material ts and competitive conditions ich prevented immediate adtment of selling prices to offset ing costs. The fourth factor s unusual expenses amounting approximately $600,000 inrred in the final consolidation the company's Philadelphia nufacturing facilities and in a stantial reduction of pernnel.

Dividends in 1954 totaled $2.00 hare, the same as paid in 1953.

The 1954 decline in sales in th automotive and industrial ds, paralleled to some extent e experience of the entire baty industry. While sales of origl equipment batteries to some tomobile manufacturers sursed those of 1953, total volume original equipment automotive es fell below the 1953 level. At e same time demand for autotive replacement batteries in th proprietary and private nds was lower. The decrease industrial sales was attributed tly to the reducing of stores l maintenance expenses and e leveling off of diesel convern by the railroads and a someat lower level of business in neral, coupled with the conued reduction of purchases m the storage battery indusby the armed forces and other ernment Agencies.

Working capital at year-end s $29,020,423 or $31.97 per re, as compared with $30,690,-, or $33.81 per share at the l of the previous year. Ratio current assets to current liaities was 2.9 to 1 as compared h 5.5 to 1 at the end of 1953. s ratio rose to 6.3 to 1 after ment of the company's longm debt of $9,400,000 on Jany 1, 1955. Book value, based total capital of $56,115,136, s $61.81 per share, an increase m $55.23 per share as of Deber 31, 1953.

Organizational changes during the year included centralization of responsibility for all engineering, manufacturing and selling activities related to the company's automotive products. Consolidation of all Philadelphia manufacturing operations in its expanded and modernized industrial plant in northeast Philadelphia and completion of a new automotive battery plant in Calgary, Alberta, concluded the company's plant expansion program in the United States and Canada. Meanwhile, the company's subsidiary ESB International Corp., has been establishing small manufacturing operations in six foreign countries, including Colombia, where a plant is being equipped.

The company expressed optimism over future operations as it is making strides in improving efficiency and lowering costs.

The company has had its problems in the past year but the revival in the automobile industry which is now in progress should give a lift to the earnings.

Dynamite in Investigation

(*Continued from page* 000)

commission basis) but depend on profits from the price differential between their purchases and their sales to customers, there is the natural temptation to favor the firm as against the customer. This situation, of course, would not apply to the best established firms in the business who service a regular clientele and who are, therefore, particularly dependent on their goodwill—but criticism has been heard of the methods of other firms.

One of the disadvantages of the over-the-counter market from the investor's viewpoint, is that companies with unlisted securities are not compelled to make public reports. This makes it very difficult for investors to acquire the necessary information on which to base their judgment as to the value of the securities. Since the Stock Exchanges, on the contrary, do require reports on companies listed there—the New York Stock Exchange makes this an absolute requirement for admission to listing privileges—there would appear to be no valid reason for the maintenance of a double standard with respect to the public issuance of company reports, such as is illustrated by this difference in requirements between the Exchanges and the over-the-counter market. This is based on the clear proposition that the public is entitled to the essential facts on the companies whose securities it owns.

The "Mutual Funds"

The growth of mutual funds is a significant phenomenon of our times but there is far less general information on the operation of these investment companies than there should be. Since the enactment of the Investment Company Act of 1940, under whose provisions these companies are registered, mutual fund companies have risen from 73 to 172, with an expansion in assets of from $400 million to nearly $5 billion. There are now about 1.6 million individual shareholder accounts which have been increasing at the rate of about 18% a year.

Mutual fund assets represent the savings of the public, in this case very largely composed of small investors without much experience in the investing field. To afford protection to the investing public, the Investment Company Act set out to accomplish for mutual funds certain objectives: (1) unbiased and honest management; (2) sound capital structure; (3) correct accounting and adequate financial statements; and (4) correct selling practices. With respect to the latter, there has been evidence in later years that the standards in the sale of these securities to the public could be improved. In the first place, salesmen are more intent on making sales and securing commissions than in furnishing the investor with the requisite amount of background material so that he can understand the risks, as well as the advantages, in buying these securities. There is also a certain degree of underplaying of the highly essential factor of liquidity, many investors not understanding that markets in these securities are not as free as on the Exchanges and that it is not as easy to sell their securities, without incurring a rather high cost. Also, many investors do not understand the differences between the various types of mutual funds, some of which stress capital gains and others, income. What may be suitable for one type of investor may not be suitable for another and this feature is not brought out as often as it should be to prospective purchasers by the salesmen.

Beyond these considerations, there is the highly important one that mutual funds, because of their inherent nature, do not depend merely on the health of the stock market for their well-being but on a steady accretion of new buying in their own securities. But, if withdrawals by holders who wish a return of cash should exceed incoming funds from new arrivals, the mutual fund companies which normally do not possess large cash reserves, would be compelled to liquidate their holdings in the market to the extent to which withdrawals exceeded receipts. If such liquidation were on a large scale, which could occur as holders increased their demands for cash in a prolonged downtrend in securities and business, depreciation in the value of the mutual fund shares could be considerable and possibly cause more loss to holders than would be incurred if they held stocks directly. These facts should be presented to the public who should be given an opportunity to learn all sides of this type of security. Mutual funds, undoubtedly, are here to stay but that is no reason for not improving the methods used in the sale of these securities to the public. It might be a good thing, for example, if mutual fund salesmen were rigidly trained to give a fair and adequate presentation to prospective purchasers.

The regulation of mutual funds under the Investment Company Act is probably adequate. But, if experience shows that the law should be strengthened, there should be no hesitation about doing it. In passing, it should be observed that most fair-minded people in the financial community agree, contrary to their opinion a decade or more ago, that regulation and policing of the securities markets, if on a realistic basis, is not a disadvantage. On the contrary, it places a firmer foundation under the security business in general and is an important factor in maintaining confidence among the investing public.

The Stock Exchange and the Public

While the over-the-counter market and mutual funds are important sectors of the securities markets, public attention is naturally riveted to a far greater extent on the activities of New York Stock Exchange. Although other Exchanges have also become more prominent in recent years, in particular the American Stock Exchange, the hopes and fears of investors of the nation are mainly centered on the Big Board. In any case, major stock trends on the New York Stock Exchange are inevitably reflected in all the other Exchanges and in the over-the-counter market, and have a paramount influence on the market level of all securities.

Therefore, the extent to which the individual members and the member firms can influence public activity in the market is a legitimate subject of inquiry. Before any unfair inference is drawn from this statement, however, the writer must hasten to add that the professional ethics of the Exchange and its member firms is as high as that of any other business in this country. A great deal of effort, since the Securities & Exchange Commission was created in the middle 1930's, has been expended in making the Exchange, not only an

ficient mechanism for the purhase and sale of securities, but n providing the utmost protecion for the investor against raud and dishonest dealing. The act that S.E.C. administers the w on securities, in no way minmizes the important part which e New York Stock Exchange lays in the protection of the nvesting public. Accordingly, it eserves every credit for mainaining the highest degree of vigiance against wrong-doing on the art of all who have business ith it.

Members of the Exchange, of ourse, are in business to make rofits just as in any other busiess. These profits come from ommissions on orders from cusomers. The larger the volume of rder, the higher the volume of ommission and the larger the rms' profits.

It is at precisely this point that e must ask ourselves whether n the entirely legitimate objecive of doing more business, the Exchange, through its members, oes not on occasion inevitably ontribute to the stimulation of tock market activity to a degree hat, in part at least, can be unealthy. Certainly, there were lenty of signs since the last elecions, when the market started he most violent phase of its proonged advance, that the public as becoming unduly preoccupied ith the stock market. The quesion is whether the Exchange ould have found a way to temper he extravagantly intense speculation which ensued without recking the entire market structure. Yet, a word of caution defiitely was needed if the already reat speculation was not to erupt nto something infinitely more angerous. We must admit that it ook the Washington inquiry to roduce the necessary atmosphere f sobriety among the speculating ublic.

Definitely, there is room for ome sort of admonitory statement by the responsible heads of he Exchange when speculation in tocks appears to be getting out f hand. The question is whether he Exchange is prepared to take uch precautionary steps when ecessary or whether it will risk eing compelled to submit eventuly to legislation that can produce this result.

The Public Needs Education

Basically, the problem is one of educating the public in the fundamentals of investing and speculation. The Stock Exchange, which has done such a fine job in executing orders and policing the activities of its members and those who do business with them, has failed, on the whole, to perform its other great function, which should be the education of the public. In this respect, it has been remarkably unprogressive, leaving the job to be performed by publications such as *The Magazine of Wall Street,* teachers in the colleges and a minority of public-spirited leaders familiar with the field and who realize the necessity of educating the rank and file of investors. As the wealth of the nation grows and the number of investors grows with it, the need for education will become even greater than it is today. Surely, this is a problem which the Exchange should study and come up with a solution. This is a responsibility which it should not attempt to avoid. Perhaps, it could start with some self-education whereby members, their customers' men (now called customers' brokers), and their research staffs were required periodically to pass tests to determine whether they were keeping sufficiently abreast of important economic, financial and business developments to advise the public on security matters. Nor would it hurt if all who were concerned with the profession of advising the public were also required to pass such a test periodically. At least, this might have the virtue of removing from the scene many of the "tipsters" who are so obviously unqualified to guide the public.

The public itself must do its share in keeping the security markets as orderly as possible. Education will help a great deal, of course, but if the public insists on taking the bridle in its teeth, it should not complain if it stumbles at the end of the road. Public psychology plays a tremendously

important part in the market and enthusiasm — or fear — can be highly contagious. The problem for the individual is to exert some self-control when he is in danger of being caught up in such a situation.

Psychology An Important Market Factor

Some of the witnesses at the Fulbright Committee hearings have acknowledged the potency of public psychology in the stock market and have frankly stated that the best efforts to protect the public will not succeed fully unless it cooperates. Most experienced observers will agree with this contention.

Perhaps this is the crux of the whole affair and nothing by way of new legislation can or should be enacted as a result of the inquiry into the stock market lest it ignores the human factor and thereby creates greater difficulties than it eliminated.

The best plan, the writer believes, would be for each sector of the securities business—Stock Exchanges, over-the-counter dealers, investment companies and advisors in the investment field—to examine itself closely, scrutinize any defects it may have and rectify them on a realistic basis, the entire effort directed toward serving the public more effectively and, more honestly than ever. In that way it can avoid the risk of restrictive legislation. The very fact that a Senatorial inquiry into the entire apparatus of the stock market was found necessary should be a warning to all concerned.

—END

75 Leading Stocks

(*Continued from page* 00)

dividend and yield fools those who only see what is on the surface.

Radio Corp. of America is a good example of a company which has been using earnings to build an enlarged, strong and highly competitive organization. Since the end of World War II, about 60 per cent of all net income was reinvested in plant and working capital. Book value of the stock rose to $10.12 a share at the end of 1954 from 76¢ nine years earlier. The facilities working to earn money for shareholders increased at a very rapid rate. It was not surprising, therefore, that the sales pattern for RCA during the period has been much more favorable than for most of its competitors.

Because of the small dividend payment made by RCA the stock has generally sold at a price which offers a low yield. Looking at yield alone, though, gave a distorted impression of the market value of the stock. In the case of RCA common as in most stocks of this nature it was necessary to check the price-earnings ratio as well as the return on investment. The low yield level might have indicated that the common stock was overvalued were it not for the fact that the shares were conservatively priced in relation to earnings. At time passed, dividend payments, reflecting the improvement which resulted from reinvestment of earnings, rose rapidly so that payments of $1.20 a share in 1954 were six times as large as the annual disbursement in 1946.

Indicators of Value

International Paper Co. is another of the group which was able to rebuild a strong enterprise of investment calibre out of one which faced financial stringency every time the nation's economy turned soft. The development was aided by a lengthy period of years starting with World War II during which its consumer markets were steady. Management reported good sized profit each year but retained a large proportion of the earnings for reinvestment in the business. Facilities were expanded considerably, but of greater importance is the fact that efficiency was improved through modernization so that lower overhead becomes a much lighter burden when operations are slow in relation to installed capacity.

It required many years for the market to indicate that investors believed in the stability and growth prospects of International Paper yet any analyst who was willing to believe in the importance of reinvested earnings could see the metamorphosis in process and was able to benefit accordingly.

Not all companies which reinvest heavily are indicated by the size of retained earnings. In the case of industries like the chemical group where high depreciation charges obscure the truly high rate of "cash flow" and result in small reported earnings, the gains in facilities are indicated by changes in book value. Thus, *Dow Chemical* shows only $6.85 a share for earnings retained since 1946 yet book value has increased almost four fold. *Monsanto Chemical* shows a somewhat higher value for retained earnings, but the increase in book value is equally great as compared with 1946.

Thus, it is evident that these indicators of value and prospects must be viewed in relation to each other and to other companies, as well. *A stock selling at a price to give a high yield but which also shows a high ratio of price to annual earnings may be no better value than one which pays little but is priced more conservatively with respect to earnings.*

Railroads have been spending heavily since the end of the war

for new rolling stock and for improvement of their facilities. This has resulted in good-sized increases in the book value of the stock because most of the spending has been financed through retention of earnings. Dividend-payout has been conservative up to now but with dieselization and freight car programs mostly completed, some liberalization of dividends would not be surprising. Virtually all the companies in the table show good coverage of dividend rates by annual earnings.

The significance of book value is perhaps greater for the electric utility group than to either the industrials or rails for utility bookkeeping is uniform and kept according to prescribed rules. Rates permitted to the utilities are generally based on a stated return on the book value. *Therefore, the higher the book value, the greater the return to the utility corporation per share of outstanding common and the more valuable should be the common.* Of course, the premium at which the stock sells over its book value varies between companies and at different times, but it is almost always true that an increase in book value will result in an average increase in the market price of the stock.

The premium tends to vary in relation to market action as influenced by money rates and yields but averaging a number of years, it is not uncommon for the premium to be about 40 per cent over the book value.

We have attempted to show the basic factors that should be taken into consideration in evaluating common stocks. This is normally an arduous task but investors would find it rewarding. In the accompanying table is given pertinent data whose significance is described above. This table should be retained for reference. —END

Where to Reinvest Your Funds

(*Continued from page* 000)

represent a substantial source of internally generated cash which undoubtedly was a factor in the calling for redemption last October of all of the outstanding $4 preferred stock.

Although Dow is now paying dividends at an annual rate of only $1 a share to yield 2.3% on the current price of 43⅛, the stock is an attractive long-term investment for both higher dividend and price appreciation potentials.

CURTISS-WRIGHT CORP., which has achieved a front rank position as a builder of Turbo Compound engines for both commercial airliners and military aircraft, as well as the Curtiss-Wright J65 jet engine used in a number of Navy and Air Force bomber and fighter planes, has steadily diversified activities in other fields. Through its several divisions and subsidiaries it produces a variety of specialized metal products for the automobile, petroleum, machine tool and other manufacturing industries; forgings, steel casting and precision machined parts; turboelectric propellers; plastics products marketed chiefly through major chain stores, and through its electronics division flight simulators, radio aids, and nuclear equipment for industry. The most recently formed company division takes Curtiss-Wright into the fields of ultrasonics and specialized electronics.

Reflecting this growth, sales last year at $475 million were at a record high, increasing from $438.7 million for 1953, and running about $150 million ahead of 1952 sales. Net profits last year, at an all-time peak of $19.3 million, compared with $11.4 million for 1953, and were more than twice the $9 million reported for 1952. The company entered the current year with unfilled orders, plus scheduled production under advance contracts, in excess of $750 million. This backlog is sufficient to maintain operations, on the basis of 1954 business, well into the latter part of 1956.

Net earnings last year were equal to $20.32 a share for the class "A" stock. In the preceding year, net available for this issue was equal to $11.96 a share, against annual dividend requirements of $2 a share, to which the "A" stock has preference over the common. This rate of dividend, payable 50-cents quarterly, has been maintained without interruption over the last 16 years. The class "A" stock, currently priced in the market at 32, yields 6.2%. —END

Investment Clinic

(*Continued from page* 35)

body of individuals who stipulate that their trustees ca ninvest only in the highest category of bonds. We have recently received a letter from the executor of a will who complains that "under the provisions of the will (the general scope of which I described in the earlier part of my letter) I have found it impossible to make the necessary revisions which would have brought in an income to the beneficiaries sufficient to compensate for the loss in buying power caused by 15 years of inflation. Outside of a comparatively small amount left in real estate and a good-sized farm on which the now aging beneficiaries live—and, incidentally, this has proved the most valuable inheritance owing to the fact that it provides a living—the entire estate, quite a substantial one, was tied up in government and similar bonds with the provision that upon maturity the receipts should be reinvested in similar securities. The result has been a steady and unavoidable depreciation in the value of the income received. Perhaps the recital of my difficulties will assist those who are contemplating recasting their wills to meet present conditions."

We cite this letter to illustrate the difficulties of managing investments under too rigid an application of the safety factor. No doubt, government bonds and the like are the safest form of investment in securities, but only in a time of stability, or even a decline in general prices and the cost of living. In an inflationary period, concentration of funds in fixed-income securities, no matter how sound intrinsically, can and does defeat the purpose of the investment. For that reason, a more flexible attitude is desired even by investors who are normally of a highly conservative disposition.

It should be perfectly possible to draw up a list of investments to-day to conform with rigid investment standards and, at the same time, provide sufficient flexibility to cope more realistically with shifting conditions. In order to enable our more conservatively-minded investors to solve their problems, we have prepared two lists of investments which will be found in the accompanying table. One list is for conservative investors who feel they must limit the bulk of their investments to the highest-grade bonds and preferred stocks, at the same time laying out a conservative stake in several sound common stocks that, without due risk, should, in time, provide the basis for some capital appreciation. In this list, 60% has been invested in government bonds and tax-exempts; about 13% in a high-grade preferred, to provide a somewhat higher income than obtainable in high-grade bonds; and the remainder, or about 27% in common stocks of high standing. A. T. & T. has been included to provide a higher income than that now obtainable on most other high-grade common stocks, and Dow and General Electric have been included, though offering a comparatively small yield, for long-term capital appreciation. We believe this list is too conservative for most investors but realize that some individuals require portfolios of this composition and have therefore prepared the list accordingly to meet with this demand. A reduction to 30% of the total holding in government and tax-exempts and a higher percentage of sound common stocks would have been more advisable.

The second list is also prepared with a view toward providing as reasonable degree of safety as possible at the same time, however, permitting the investor to place his funds in such a manner as to benefit from eventually higher dividend income from carefully selected stocks, as well as prospects for long-term appreciation. In this list, about 30% of the funds were limited to savings bank deposits, governments and tax-exempts; about 15% in high-grade preferreds to raise the total income of the portfolio; and the remainder, about 55%, in good to high-grade common stocks. This list would be suitable for investors who do not care to speculate, who wish to stand with long-term positions, and who understand that their yield will be reduced, if they include too large a proportion of high-grade fixed-income securities. Nevertheless, as in list #2 (a balanced portfolio) they can assure themselves of the possibility of raising the total yield on the investment by including in their portfolio a reasonable percentage of common stock provided such issues are of an investment character.

It should be noted that the yield on both portfolios is low, being 2.85% for the most conservative portfolio and 3.5% for the balanced portfolio. This is unavoidable, however, if the investor wishes to stress a high degree of conservatism in his investments. However, in both instances, the possibility of a higher income does exist through the inclusion of common stocks which, it is hoped, will eventually be placed on a higher dividend basis.

Obviously, portfolios of the rather specialized type described will not suit the needs of the average investor who, undoubtedly, is more interested in raising his income to the largest possible, but not maximum, safety, and, of course, capital appreciation. Such objectives, obviously are quite different from those of the investor who must stress a highly conservative pattern in his investments.

—END

TV and Electronics

(*Continued from page* 000)

to find something with which to counteract the lethal bomb.

The scientific race has led to development of the hydrogen bomb and to remarkable progress on guided missiles. Research is being concentrated at present on development of self-propelled flying objects capable of carrying a hydrogen warhead thousands of miles to a predetermined destination. At the same time, electronics are being utilized to provide an effective radar screen to warn observers of the approach of any enemy aircraft or missiles. In other words, scientists have turned to electronics to find an impregnable defense for safety in guarding civilian populations from depradations of electronically directed weapons supposedly capable of penetrating physical barriers.

Military expenditures seem unlikely to decline significantly over the near term. More and more emphasis appears destined to be placed on electronic research and production, while procurement of aircraft may gradually decline. Contracts have been awarded, it has been announced, for constuction of a radar warning screen

across the wastes of Canada and guided missile installations are being set up near industrial centers and along the Atlantic Coast. These developments involve large expenditures in the field of electronics. Progress in development of atomic power plants partly for national defense and partly for a source of cheaper fuel opens another important avenue for expansion in electronics.

When all is said and done, probably only the surface has been scratched thus far in evolving new electronic devices for civilian uses. With the rise in national income and the growing trend toward young wives remaining at work in offices and factories after marriage, greater dependence is certain to be placed on electric appliances. The homemaker is demanding greater time-saving conveniences. The consuming public has demonstrated, moreover, that it is able to pay for household aids. One needs only to consider for a moment the extensive group of new electronic devices which have become commonly accepted since World War II—television, for example, now enjoyed by a majority of homes in metropolitan areas as well as in other sections; air-conditioning, now becoming a necessity in industrial plants and in offices; food freezers, so popular they are being included as a section of modern household refrigerators.

Trade authorities foresee acceleration of the trend toward greater household uses of electric appliances. Estimates place the total average investment in such equipment as between $4,000 and $5,000 in residential communities, compared with an estimated average for each home now of perhaps $1,200 to $1,300 in electrical apparatus. Color television, for example, is on the way, and it will mean addition of many new electronic components. Electronic household cooking is possible and will become popular as the cost comes down on newly perfected gadgets. Electronic waste disposers and other kitchen aids are in the works. Moreover, adoption of heat pumps for household warmth in winter and for cooling in summers, is gaining popularity in many parts of the country where electric rates are economical. All in all, the horizon for electronic devices steadily is broadening.

From the investment standpoint, companies making the greatest progress in scientific achievement in electronics, especially those allied to the defense industries and to atomic energy, have rather remarkable opportunities ahead for future growth. It probably is true that a number of these issues have temporarily outrun their potentials so far as their market price is concerned but the best grade of holdings among these issues should not be disturbed by investors who prefer to take a long-range view. For those more interested in accepting profits which have accrued in this group, it would seem that the best course would be not to sell all the holdings but just enough to mark down the original cost to a substantial degree. This step would offer investors the satisfaction of accepting some profits without at the same time forfeiting an opportunity for longer-range profits, in the remainder of their holdings.

Market prospects for companies which depend mainly on TV and radio are in a somewhat different position. The better grade among these companies should continue to turn in reasonably satisfactory earnings to support existing dividend rates but opportunities for exceptionally large profits in this group would not appear to be overwhelming at this stage of the market.

The movie stocks have made progress since the industry left behind its worst period. Earnings are generally increasing and dividends in some cases can be increased. On the other hand, they do not appear to offer outstanding opportunities for market appreciation after their recent fairly substantial rise percentagewise. —END

In The Next Issue

Part 3 and 4 of

Our Special Series

—o—

Industrial-Investment Appraisal

—o—

CHEMICALS-OILS

Where Rail Recapitalization Will Increase Earnings-Dividends

(*Continued from page* 34)

conditions in 1955, it is likely that freight revenues and net income will show an improvement over the previous year's figures. Aiding in this possible better showing is the increased industrial activity in the road's territory which is expected to continue to expand as new plants, particularly those in the chemical industry, move in to take advantage of the nearness of supplies of raw materials.

BALTIMORE & OHIO having made outstanding progress last year in reducing its debt has designated several banking organizations to continue studies and formulate plans for further simplifying its debt structure and reducing over-all interest costs. The road's accomplishment in this respect in 1954 included a reduction of over $30 million in bonds and notes, and the retirement of approximately $14 million in eqiupment obligations. These reductions mean a saving of close to $1.6 million in interest charges.

Since the end of World War II, B & O, through dieselization, mechanization of facilities, and other improvements has improved operating efficiency, and its present strenous efforts to further cut its $442.2 million funded debt in the hands of the public, when achieved, should result in further substantial savings in interest and sinking fund charges to the benefit of the common stock.

—END

For Profit And Income

(*Continued from page* 37)

Rising Dividends

We recently cited here a number of stocks of companies which have shown ability and willingness to raise dividends fairly frequently. Here are some others: Household Finance, increases in 9 out of the last 10 years; Southern Pacific, 9 boosts since 1942; Union Tank Car, 5 boosts since 1946; Shell Oil, 5 since 1946; Sutherland Paper, 5 since 1945; Socony-Vacuum, 7 since 1945; General Foods, 6 since 1945; and Atchison, 7 since 1940.

Support

Individual stocks recently showing above-average strength include Continental Can, Pure Oil, Borg Warner, Sperry (on merger-report news), General Foods, Copper Range, Marathon, American Machine & Metals, Evans Products, Merck, National Department Stores, Pfizer (a promising research development announced), Newport News Shipbuilding, Rohm & Haas, Shamrock Oil & Gas.

Low-Priced

Some low-priced stocks with above-average speculative merit are: American Airlines, Celanese, Gimbel, Mercantile Stores, Erie, Pennsylvania Railroad, Mission Development and Pepsi-Cola. These, of course, are in the speculative category and should be so considered by cautious investors.

Electronics

The TV-electronic stocks have had a substantial reaction, and are worth speculative consideration at present prices. On the basis of 1955 and longer-range potentials, and taking current price-earnings ratios into account, issues considered relatively attractive include Hoffman Electronics, Sylvania, Magnavox, Motorola, Stromberg - Carlson, Sylvania Electric and Zenith Radio. A comprehensive analysis of the electronics industries, including TV and the movies will be found, starting page 26 of this issue.

—END

What's New?

(*Continued from page* 43)

important feature of Pure Oil's excellent long-term earnings potential lies in its recently developed natural gas business, which is likely to become much more important to over-all operations. Proved natural gas reserves are very large, particularly on a common per share basis.

Bendix Aviation Corp. One of the foremost combination companies active in the aviation, automotive, electronic and scientific instrument fields, it is also one of the most aggressive organizations involving research and development work. Last year, Bendix spent 13 cents of each dollar of sales on engineering and research, employing 7,800 people in departments engaged in development including experimentation in guided missiles. The new stock, now around 55-56, is on a $2.00 dividend basis, yielding about 3.6%. Selling about ten times last year's earnings of $5.62 (adjusted) this equity appears to offer substantial value for a research-growth issue in a dynamic industry. The capitalization is moderate, composed of only 4.2 million shares after the recent 2 for 1 split.

Diamond Alkali Co. Long a laggard in the industry, Diamond, after World War II, undertook a large-scale plant rehabilitation, expansion and diversification program which greatly broadened its base of business and increased sales. Much of the well planned capital expenditures were financed largely from working capital and retained earnings. Last year, sales increased 7.8% to $93.5 million from $86.7 million in 1953, while earnings were reported at $2.21 a share off slightly from $2.39 the year before. While sales have tripled since 1946, net earnings have not yet reflected the extensive post-war program. Diamond seems well situated to capitalize on its growth potential and eventually earning power should rise to a higher plane. Though not as familiar to investors as other chemical stocks, Diamond Alkali stock deserves consideration from a long-term standpoint.

—END

Securities Disturbing Investors

(*Continued from page* 31)

The construction and modernization program of 1954 was the largest in the company's history and according to existing plans will be duplicated in 1955.

The full benefits of these moves should become increasing evident this year and next. In the meantime, the current $1.80 a share dividend, amply covered by 1954 earnings of $2.24 a share, should continue. The stock should be retained.

WESSON OIL & SNOWDRIFT, one of the foremost producers of cottonseed oil, has a volatile earnings record, net profits in any one year being governed by either fairly stable or, in some instances, radical changes in vegetable oil prices. This is illustrated by 1954 fiscal year's net sales of $175.4 million and net earnings for the common stock of $4.78 a share, compared with net sales of $191.7 million and earnings of $2.88 a share in the preceding year ended August 31, 1953. Some increasing stability is added, however, by the growth in importance of by-product fertilizer sales and the expansion into the frozen and packaged food fields.

Last year, the regular 35-cent quarterly dividend was supplemented by $1 extra and is likely to be repeated in 1955, in view of indicated net earnings closely paralleling fiscal 1954 showing. The common stock is worth retaining for income and long-range growth potential.

WESTINGHOUSE AIR BRAKE, notwithstanding curtailed buying by the railroads of air brakes and signal equipment, was able to show net sales at $121.5 million which, although down from 1953 all-time peak of $145 million, made 1954 the second best year in the company's history. Flood damage amounting to $1.6 million at its Wilmerding plant, and a two months' strike in its Le Roi division, pulled net earnings down to where they amounted to only 85 cents a share. Non-recurring items, however, added $1.03 a share net available for the common stock, bringing the 1954 total to $1.88 a share. Earnings for 1955 should show an improvement over last year's net income from operations. Some indication of this expected improvement is to be had from the larger volume of orders on car builders books, while expanded roadbuilding and constructions programs should create new business for the company's earth-moving machinery, portable and stationary compressors, and rock drilling manufacturing divisions. Adding to the prospects is the development, jointly with Johns-Mansville of the new "Cobra" brake shoe which is regarded as being greatly superior in many respects to the conventional cast iron shoe.

Recent dividend action reduced the quarterly payment on the common stock to 30 cents a share from 40 cents quarterly paid throughout all of 1954. This lower rate appears reasonably secure. In view of the good long-range prospects, the stock should be retained. —END

BOOK REVIEW

Blue Hurricane

By F. van WYCK MASON

Writing of the great "River War" fought in the Mississippi and its tributaries by the Union Navy in 1862, and of the adventures of Matt Hovey from the State of Maine, F. van Wyck Mason adds a new novel of sweep and vitality to an already distinguished list of books that bring America's past to life.

Matt Hovey flees his home as a fugitive after he carries out the vengeance he has planned in his mother's name. To Phoebe Whidden he can bid only a hasty farewell, and she swears she will follow him later. In corrupt and-strife-torn St. Louis, Matt joins forces with men who have the golden touch when it comes to turning the Union's ordeal into huge profits by blocade running. It is the sight of Phoebe in danger that finally brings Matt to his senses and to the testing of his courage by service on the Union ironclads.

Encompassing a large number of vividly-to Paul Dent, the deserter who determines drawn characters, from Dr. Rob Ashton to fight again, and the lovely Flavia Cosby, the author portrays the whole climactic year of struggle when the Confederacy was cut vertically in half. Here is that strange war fought by Eads' ironclads, built in forty-five days. Supporting Grant Donelson and winning the crucial battle on the Mississippi, these craft and their gallin the storming of Forts Henry and lant crews played a vital role.

Blue Hurricane is the second book in Mr. Mason's projected tetralogy of the Civil War, a series comparable to his famous quartet of books on the American Revolution. Old and new readers alike will find in this book not only absorbing fiction by a master novelist, but also an heroic and fascinatingly revealed chapter of our history.

Lippincott $3.75

The Trend of Events

(*Continued from page 4*)

have taught all the Hottentots to drive automobiles which they trade in every two years, we shall also have taught them to intercept at the source many of the necessities of industrial civilization which we now import in large part from presently backward nations. Thus, to the suspicion many of us have had that these give-aways are doing their recipients no real and lasting good, must be added the probability that if they do work we shall be the eventual sufferers.

Conservation, along with the wise and far-sighted men who really want to keep a greener, sounder land for future generations, has attracted more than its share of doctrinaires who want to put fences around everything and not use them now or later. Some extremists assert it is better for trees in the national forest to rot and fall down than to be cut and used to build houses.

Nevertheless, the rich man who spends all his income and eats into his capital at the expense of his heirs is universally regarded as not very bright. The same is true of the nation which does the same. Our waters, our forests, the wide-open spaces which have formed the heritage of Americans, are not ours to squander, but ours to use and to hand on unharmed to those who come after us.

As I See It

(*Continued from page 5*)

if for no other reason than that they are unsure of themselves and their present policies. The struggle for power within the Kremlin is going on, and if we are to believe some of the experts, communism in Russia has reached the Directoire" stage of the French Revolution, a period of indecision and of waiting for another strong man to emerge. In contrast, Chinese communism—even if it is still further removed from original marxism than the Russian communism "a la Tartar"—is dynamic and expanding. Contrary to popular notions, Peiping is not aping Moscow in everything. It has been more careful in handling the peasantry, if for no other reason than that a decline in food production would be much more disastrous in China than it was in Russia.

Finally, in China today, even more so than in Russia, the accent is on nationalism. The unification and consolidation of China under the communists has been accompanied by the growth of a nationalist conscience among the Chinese. This new Chinese nationalism, bursting out, is presently making trouble for the Free World in Formosa, Malay, and elsewhere. But sooner or later it is also bound to make trouble for the Russians, particularly when Red China gets ready to exploit the natural resources of Sinkiang and Mongolia.

Only time can tell what will happen. It is certain that Mao and Chou will be less and less willing to take orders from Moscow. But if outside pressures are too great, the Soviets and Red China may forget their growing differences. Our best bet is to play on the differences between the two and try to widen the cracks that are beginning to appear.

—END

BOOK REVIEWS

Concise Economic History of Britain—1950 to Recent Times

By W. H. B. COURT

This is Professor Court's independent sequel to the late Sir John Clapham's *Concise Economic History of Britain Volume I* (second impression 1951). Professor Court carires the story of the economic life of Britani from 1750 to the beginning of the war of 1939. He describes the growth of the first industrial state, its days of prosperity and the grimmer features that came with it and lasted longer.

The first part: *The Growth of an Industrial State*, has chapters on population, agriculture and the land system; the pace of innovation in mining and manufacture, transport and overseas trade; investment, banking, the instability of the economy, the state and the foreign balance; the social setting and the influence of war.

The second part: *The Victorian Economy and After*, describes economic life in the Victorian age of 1880; the vicissitudes of an industrial state; industry and the social order: the origins of the welfare state; Britain as the leader of the world's economy, and the challenge to that leadership between 1880 and 1939.

Britain's life is still deeply affected for good and ill by the processes and events Professor Court describes. His book will help a reader to understand to-day by showing what happened in the past still near to us, and in that daily life which we all live.

Cambridge Univ. Press

Lord of the Isles

By DONALD B. CHIDSEY

Johnny Lamb couldn't stop living long enough to clear his name of a murder charge in Connecticut. Instead, he took to a whaling ship and wound up in the Sandwich Islands (now called Hawaii) not only as a successful merchant of goods and liquor but as common-law king of the reigning Queen Kaahumanu. He had a superb lust for life which he rarely denied, but he had respect for people, their rights and beliefs. He had become informal lord of the exotic Islands, master of their fate as well as his own—when he met Ann Mathewson.

Ann was the very young widow of one of America's first Christian missionaries in Hawaii. She was more strong-willed than dedicated, more feminine than religious. One look at Captain Johnny and Ann knew that her life would be worldly.

Donald Barr Chidsey writes zestfully and with the vividness of a born storyteller. He recreates the Hawaii of the 1820's, where the pagan gods had just fallen and East was about to meet West. The way of life was spontaneous and amazing, from royal feasts to death battles of gladiators.

But the real, contagious excitement is in the mixture of explosive personalities when Ann determines to convert the Queen—through the lord of the isles, Johnny Lamb!

Crown Publishers, Inc.

U. S.—Balanced Economy

(*Continued from page* 15)

continuously in the United States; our reward for maintaining such an atmosphere is the highest standard of living in the world, and an industrial capacity which is now the surest protection of the West against Communism. We see all around us the tangible rewards of pressing for an ever-more balanced economy and it is more true of the United States than any other nation in the world that through our own philosophy and methods we have come very close to that ideal today. It is not merely a question of natural resources in which other nations also abound. It is a question of how those resources are utilized and the extent to which the free play of the economy is permitted. This, probably, is the chief secret of our unparalleled progress.

On thing the Western world is learning and that is that socialist shiboleths and slogans will not prevail against economic law, in the long run. This is a significant development which, in time, will be speeded up as the rest of the world studies the American system and learns from it. END

Tremendous distances separate resources, manufacturing capacity and consumption centers in the Soviet bloc. In consequence, the transportation requirements of the Soviet Union and the captive countries, relative to national product, are greater than those of other powers. They have been met principally by intensive use of rail capacity. The Soviet bloc does not have the diversity of means of transportation at present possessed by the Western countries, and is notably weak in shipping.

1. *In the period 1938-53, as a whole, the national product of the United States increased about three times as rapidly as that of independent Europe, and almost twice as rapidly as that of the Soviet Union. To a substantial degree, this difference reflects the varying effects of World War II. Between 1948 and 1953 the national product of the United States grew not quite 30 percent faster than that of independent Europe, and only two-third fast as that of the Soviet Ui*

1. In the United States, period 1938-44 was marked the liquidation of unemploym and by the more intensive us industrial capacity, as well as low investment and marked source depletion. Substantial vestment since the end of W War II, including the deve ment of new resources (dome and foreign), not only cons dated wartime gains but set favorable conditions for furt growth, although at a slower r

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2. In the Soviet Union,

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U. S. — Western Europe — Soviet Union

	United States	Western Europe	Soviet Union	Captive Europe
Total population:				
Change (1938-52)..........	20-percent increase............	Western Europe: 9-percent increase, Independent Europe: 7-percent increase.	9-percent increase within post-war boundaries.	4-percent decrease, 12-perc decrease excluding East G many.
Annual increase (1948-52).	1.76 percent....................	0.9 percent (range f: —0.01 percent in Austria to 2.4 percent in Turkey.)	1.5 to 1.7 percent..............	1.1 Percent (1950-52).
Size (end 1953)............	161 million	280 million (Western Europe), 332 million (Independent Europe).	212 million......................	92 million.
Trends in age structure....	Total growth has far exceeded increase of working-age groups in recent years.	War losses largely offset by natural increase, but trend toward "aging" is accelerating.	Prewar gains in survival rates now yielding large additions to working-age groups.	War losses and refugeeism pleted working-age grou
Labor forces:				
Trends	67 million (1953), 56 million (1939).	125 million (1952-53), 10-percent increase, 1938-48.	105 to 110 million (1953), 95 million (1940).	Near complete labor mobil tion.
Labor distribution.........	Agriculture: 11 percent of employed persons and declining. Manufacturing and mining: 40 percent of nonfarm employees.	Agriculture: Half the active males in southern countries; under 20 percent in northwestern countries. Industry: Number employed increased 20 percent or more over 1938 in 10 countries.	Agriculture: 50 to 55 percent of labor force. Industry: 60 to 65 percent of non-agricultural labor of which 70 percent in "heavy" branches.	Agriculture: Over half the tive males in population. Industry: About 8.5 million.
Participation of women....	Aged 14 and over: 32 percent (1953), 27 percent (1940).	Range: Under 20 percent (Italy, Netherlands, Belgium) to over 50 percent (Turkey, Yugoslavia) employed.	Over half those over 15 employed, higher seasonally. Important in Soviet bloc agriculture.	Pressed to enter urban em ment.
Hours weekly in industry...	41 (1953,) 38 (1939)............	Median: 45 (1952 to 1953) (range Italy, 39; Germany 48).	48 minimum (1953), 40 average (1937).	46-48 minimum.
Unemployment	Near "frictional" level in recent years.	Postwar: High employment in northwestern countries, but chronic unemployment in southern countries.	None officially admitted but low productivity reflects consi able concealed underemployment.	
Output per man or man-hour in manufacturing.	Man-hour output increases 2 to 3 percent per year, 30 percent above 1938.	Risen 18 percent since 1938; 25 percent since 1938. Present levels range from 15 to 50 percent of United States level (value added basis).	1953 man-hour output equaled 1937 (1937 level about 30 percent of United States), 1953 man-year output up 20 percent.	Very low and not advancin planned.
Projections (to about 1970):				
Total population...........	204 million......................	302 million, Western Europe; 360 million, Independent Europe.	260 to 280 million..............	100 million.
Working-age groups.......	103 million, 15 to 54...........	200 million, 15 to 64, Western Europe; 240 million, 15 to 64, Independent Europe.	146 Million, 15 to 54..........	62 million, 15 to 59.
Retirement-age groups	10 percent, 65 and over.......	15 to 17 percent, 65 and over..	Generally shorter life expectancy.	

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period 1938-53 was characterized by both unfavorable and favorable circumstances. The Soviet Union suffered heavy war losses in terms of human life and capital resources. Between 7 million and 10 million persons were killed, or died, in the armed forces alone. Metallurgy was hit with special severity, with 60 percent of the prewar steel and aluminum capacities destroyed or damaged. In agriculture nearly half the horses and one-seventh of the cattle were lost.

Counterbalancing these losses, to a varying degree was the territorial expansion of the Soviet Union. Also, it increased its labor input through the lengthening of the workweek from a prewar 40 hours to a postwar 48 hours, through the more extensive employment of women, and through the conscription of 14- to 17-year-olds. It gained technologically through the free access of thousands of Soviet engineers to American industrial know-how; and it has enjoyed extremely large capital and raw material transfers, through lend-lease and through booty or tribute from its captive states. In 1944 alone, more than a quarter of the entire mineral consumption of the Soviet Union came from lend-lease.

3. The war inflicted heavy human and material losses upon Western Europe also. Economic recovery after 1947 was rapid, in large part owing to the Marshall plan and other mutual assistance programs.

4. For these reasons, while no comparison between nations and through time is absolutely "fair," the period considered is probably no "worse," or no "better," than others. The important fact is that past trends, by themselves, are poor guides to the future. Forecasts, if attempted, should be based upon concrete structural analysis.

II. *An examination of the various factors of production (growth of labor input, agriculture, housing, etc.) in the United States and in the Soviet Union today gives strong grounds for expecting that the* absolute *gap in the size of the* 2 *economies will widen over the next* 2 *decades, although the* rate *of growth in the Soviet Union might be somewhat higher than the* rate *of growth in the United States.*

III. *Economically, Western Europe has been growing somewhat more slowly since* 1938 *than has the Soviet Union ,although its growth has been more rapid than that of the captive countries. If the rate of growth of Western Europe is not to fall even farther behind that of the Soviet Union it is necessary that certain "bottlenecks" be eliminated.*

1. Western Europe is a deficit area with regard to many new materials. For his reason its industrial activities must be centered upon imports, fabrications, and reexports. It is greatly dependent, therefore, upon international trade, the expansion which is indispensable to further economic growth.

2. The partial and imperfect integration of Western Europe tends to perpetuate the inefficient utilization of labor, capital, and natural resources. In the countries of Northwestern Europe economic growth has been limited by the shortage of labor (under existing technology). In the Mediterranean countries, where labor is more abundant, economic development has been retarded by shortage of capital.

IV. *A major reason for the slow economic progress of the captive countries of Eastern Europe has been the tremendous drain of their resources by the Soviet Union. As in the Soviet Union, the weakest sector has been agriculture.*

1. The gain from captive tribute to the Soviet Union has been substantial, particularly in terms of war-sustaining resources. But this gain has been offset, in part, by the extra military and other security efforts on the part of the Soviet Union needed to prevent revolt in those countries.

2. A reasonable forecast of the economic future of the captive countries is difficult, if not impossible. Demographic and resource factors are favorable in varying degrees in these countries. But political conditions of crucial importance are unforeseeable. They include the extent of future Soviet exactions, the character and pace of industrial expansion required by the Soviet Union, the degree to which economic cooperation between the captive states might be permitted, the morale of the labor force, and even the continued existence of, say, Pola[...] in its present boundaries.

3. For these reasons, the c[...] tive countries, in the long te[...] may prove to be an economic dr[...] upon the Soviet Union.

V. *Per capita personal co[...] sumption in the UUnited State[...] more than 40 percent higher th[...] it was before the war, while independent Europe it has ris[...] on an average, by 11 percent. [...] contrast, per capita personal co[...] sumption in the Soviet Union a[...] Poland is barely above the p[...] war level; in other captive cou[...] tries, especially East Germany, is still below that level. Thus, d[...] ferences in living standards [...] tween the East and the West ha[...] widened over the past 15 yea[...]*

—Joint Committee on the Economic R[...]

BOOK REVIEW

The Lowering Clouds

THE SECRET DIARY OF HAROLD L. ICK[...]

During the two years following the o[...] break of war in Europe in Septemb[...] 1939, Harold L. Ickles poured into [...] black looseleaf folders of his secret di[...] the inside story of one of the great q[...] changes which make true history. T[...] was the shift of the United States [...] the American people from a position [...] neutrality bordering on isolationism [...] one of deep and committed involvem[...] with the foreign world.

Harold Ickles was the right man [...] keep this record. On the night after P[...] Harbor, as he tells the story here, [...] was approached in the White House [...] Senator Hiram Johnson, the man who [...] originally proposed Ickles for a Cabi[...] job. He was a bitter-end isolationist; [...] two men had not seen each other for [...] years. But this was, at last, the bitter e[...] and Ickes could tell the President [...] that Johnson would vote the next day [...] our declaration of war.

The cast of characters is more import[...] than the earlier volumes of the diary; [...] President Roosevelt's third term I[...] had acquired both more power and m[...] self-confidence than he earlier had. N[...] he is tangling with men better kn[...] than he was, and the stakes have r[...] correspondingly. His diary entries [...] these years show the same truculence [...] the same integrity, and a growing se[...] of the tragic and fateful meaning of w[...] lay behind all the shoving and push[...] and jockeying for power which make [...] politics in a democracy.

Here is an entirely unrewritten st[...] of the frantic struggle in high places [...] get the vice-presidential nomination [...] 1940. It is followed by a day-by[...] record of the Democratic national con[...] tion in Chicago in that year and by [...] account of the Willkie campaign, both [...] which are as readable as they are [...] orthodox. Here are a little more than [...] years of our immediate past told by [...] master diarist whose Washington i[...] community in which one can settle d[...] and lead a life of one's own."

Simon and Schuster $[...]